

In The Matter Of:

*In the Matter of
The Tax Club*

*Michael Savage
March 2, 2011*

*Precise Court Reporting
200 Old Country Road
Suite 110
Mineola, New York 11501
516-747-9393 718-343-7227 212-581-2570*

Original File 55068MS(1).v1

This Page Intentionally Left Blank

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

Page 1

1
2 -----X
3 IN THE MATTER OF
4 THE TAX CLUB
5 -----X
6
7 163 West 125th Street
8 New York, New York
9
10 March 2, 2011
11 10:05 A.M.
12
13 DEPOSITION of MICHAEL SAVAGE, taken
14 pursuant to Subpoena, held at the above-mentioned
15 time and place, before Patricia Wor, a Notary
16 Public of the State of New York.
17
18
19
20
21
22
23
24
25

Page 2

1
2 A P P E A R A N C E S:
3
4 STATE OF NEW YORK
5 OFFICE OF THE ATTORNEY GENERAL
6 ERIC T. SCHNEIDERMAN
7 163 West 125th Street, Suite 1324
8 New York, New York 10027-8201
9 BY: JUDY S. PROSPER,
10 Assistant Attorney General
11 GUY H. MITCHELL,
12 Assistant Attorney General In Charge
13
14
15 LAW OFFICE OF JOSEPH W. SANS CRAINTE
16 Attorney for The Tax Club and
17 the Witness
18 1120 Avenue of the Americas
19 Fourth Floor
20 New York, New York 10036
21
22 ALSO PRESENT
23 Ann Anorjuste, Intern
24
25

Page 3

1 M. Savage
2 MICHAEL SAVAGE, having first been
3 duly sworn by a Notary Public of the State of
4 New York, was examined and testified as
5 follows:
6 EXAMINATION BY
7 MS. PROSPER:
8 Q. Please state your name for the record.
9 A. Michael Savage.
10 Q. What is your current address?
11 A. Business address is: Manhattan
12 Professional Group, Inc./The Tax Club, 350 Fifth
13 Avenue, Suite 6015, New York, New York 10118.
14 Home address is: [REDACTED]
15 [REDACTED]
16 MS. PROSPER: Good morning. Thank you
17 for coming. My name Judy Prosper. I'm an
18 Assistant Attorney General in the Office of
19 Eric T. Schneiderman, the Attorney General
20 for the State of New York.
21 Today is March 2, 2011. It's about five
22 after 10. We are in the conference room of
23 the Harlem Regional Office of the New York
24 State Attorney General's office. With me are
25 Assistant Attorney General in Charge of this

Page 4

1 M. Savage
2 office, Guy H. Mitchell, M-I-T-C-H-E-L-L, one
3 of our interns, Ann Anorjuste, A-N-N,
4 A-N-O-R-J-U-S-T-E, and our court reporter is
5 Pat Wor.
6 Mr. Sanscrainte, can you state your name
7 and appearance and law office address,
8 please.
9 MR. SANS CRAINTE: Sure. Joseph,
10 J-O-S-E-P-H, Sanscrainte,
11 S-A-N-S-C-R-A-I-N-T-E. I serve as General
12 Counsel for The Tax Club and I'm located at
13 1120 Avenue of the Americas, Fourth Floor,
14 New York, New York 10036.
15 MS. PROSPER: This examination is being
16 conducted pursuant to Article 22 of the
17 General Business Law and Article 5 of the
18 Executive Law. The Attorney General has
19 civil and criminal jurisdiction and as such
20 we give you the following warnings:
21 First, anything you say or any documents
22 you produce may be used against you in a
23 legal proceeding.
24 Second, you have the right to refuse to
25 answer any question if a truthful answer

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 5	Page 7
<p>1 M. Savage</p> <p>2 would tend to incriminate you criminally.</p> <p>3 Third, any willful misstatements may</p> <p>4 constitute perjury. The Attorney General</p> <p>5 will permit you to have an attorney present</p> <p>6 during this examination. The attorney's role</p> <p>7 is limited to consultation with you in order</p> <p>8 to give you legal advice regarding privileged</p> <p>9 answers but for no other reason.</p> <p>10 Do you understand all that I've said?</p> <p>11 THE WITNESS: Yes.</p> <p>12 Q. Have you taken any prescription or</p> <p>13 nonprescription drugs or medication that would</p> <p>14 effect your ability to proceed?</p> <p>15 A. No.</p> <p>16 Q. Are you prepared to proceed?</p> <p>17 A. Yes.</p> <p>18 Q. Mr. Savage, have you ever testified</p> <p>19 under oath in any proceeding before today?</p> <p>20 A. Yes.</p> <p>21 Q. Can you name those proceedings, please?</p> <p>22 A. I was a witness to an incident, like a</p> <p>23 car accident in Seattle in 1988, '89.</p> <p>24 Q. Anything else?</p> <p>25 A. No.</p>	<p>1 M. Savage</p> <p>2 MR. SANSCRAINTE: Don't worry.</p> <p>3 MS. PROSPER: Could you please, Pat,</p> <p>4 mark this as AG 1 for identification, please.</p> <p>5 (Whereupon, AG Exhibit-1, Subpoena Ad</p> <p>6 Testificandum, was marked for identification,</p> <p>7 as of this date by the Reporter.)</p> <p>8 Q. Mr. Savage, showing you what's been</p> <p>9 marked as AG Exhibit-1 for ID, do you recognize</p> <p>10 it?</p> <p>11 A. Yes.</p> <p>12 Q. What do you recognize it to be?</p> <p>13 A. The subpoena for my testimony.</p> <p>14 MS. PROSPER: I'm going to move AG 1</p> <p>15 into evidence, please.</p> <p>16 (Whereupon, AG Exhibit-1, as previously</p> <p>17 described, was marked in evidence, as of this</p> <p>18 date by the Reporter.)</p> <p>19 MS. PROSPER: In pertinent part, it is a</p> <p>20 Subpoena Ad Testificandum for Michael Savage,</p> <p>21 President, Manhattan Professional Group,</p> <p>22 Inc./The Tax Club at 350 Fifth Avenue, Suite</p> <p>23 6015, New York, New York 10118 requesting his</p> <p>24 appearance on February 15th, but counsel</p> <p>25 adjourned this to today here in this office</p>
Page 6	Page 8
<p>1 M. Savage</p> <p>2 Q. Have you ever been the subject of an</p> <p>3 investigation by any law enforcement agency?</p> <p>4 A. Personally? No.</p> <p>5 Q. Personally, I did mean personally.</p> <p>6 Have you ever been convicted of a crime?</p> <p>7 A. No.</p> <p>8 Q. What is your full name, please?</p> <p>9 A. Michael Savage.</p> <p>10 Q. Do you have a middle initial?</p> <p>11 A. M.</p> <p>12 Q. Which stands for?</p> <p>13 A. Monahan.</p> <p>14 Q. Have you ever used any other name?</p> <p>15 A. Mike.</p> <p>16 Q. Did you receive notification or a</p> <p>17 subpoena requiring you to appear at this office?</p> <p>18 A. Yes.</p> <p>19 Q. What did you receive?</p> <p>20 A. I received both, the original</p> <p>21 subpoena -- well, to appear in this office I</p> <p>22 received this (handing).</p> <p>23 Q. Thank you.</p> <p>24 MS. PROSPER: I guess we'll mark your</p> <p>25 copy. If you'd like a copy, I'll make it.</p>	<p>1 M. Savage</p> <p>2 with some warnings about failure to appear,</p> <p>3 signed by me on January 28th.</p> <p>4 At this time I would like to mark and</p> <p>5 enter AG Exhibit-2, which is the Affidavit of</p> <p>6 Service by Investigator Robin Womack who</p> <p>7 swears that on January 31st she delivered to</p> <p>8 Nicole Thornton, a Receptionist at The Tax</p> <p>9 Club, Exhibit-1 and it's sworn and notarized</p> <p>10 and this is in evidence as AG Number 2.</p> <p>11 (Whereupon, AG Exhibit-2, Affidavit of</p> <p>12 Service, was marked in evidence, as of this</p> <p>13 date by the Reporter.)</p> <p>14 Q. Do you recall that The Tax Club had been</p> <p>15 served with a subpoena to produce documents in</p> <p>16 February of 2010?</p> <p>17 A. Yes.</p> <p>18 Q. Did The Tax Club respond to the subpoena</p> <p>19 and provide the requested documents?</p> <p>20 A. Yes.</p> <p>21 Q. In what form did they provide the</p> <p>22 documents?</p> <p>23 A. Both, I would say some in paper form and</p> <p>24 I think a lot in electronic form.</p> <p>25 Q. In electronic form? What exactly do you</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 9</p> <p>1 M. Savage</p> <p>2 remember or do you know?</p> <p>3 A. Yeah, files of --</p> <p>4 Q. Just the form, you need to tell me what</p> <p>5 it was, just the form that you sent it to us in,</p> <p>6 if you know.</p> <p>7 A. Thumb drives, hard drives.</p> <p>8 Q. Hard drives? Were all the documents</p> <p>9 requested produced by the company?</p> <p>10 A. Yes.</p> <p>11 Q. Now, throughout the subpoena hearing I</p> <p>12 will be referring to and showing you some</p> <p>13 documents culled from that production and asking</p> <p>14 if you recognize them.</p> <p>15 A. Okay.</p> <p>16 MS. PROSPER: If at any time -- I'll</p> <p>17 tell you this now, the following questions</p> <p>18 are -- hopefully you'll know the answers to.</p> <p>19 If at any time you don't know the answer from</p> <p>20 your personal knowledge, I'll ask you if you</p> <p>21 know someone else who knows and then we'll</p> <p>22 move on and we'll note that person's name and</p> <p>23 contact information and then we'll just kind</p> <p>24 of keep moving along, but hopefully you'll</p> <p>25 know the answer to at least the following.</p>	<p style="text-align: right;">Page 11</p> <p>1 M. Savage</p> <p>2 A. [REDACTED]</p> <p>3 [REDACTED]</p> <p>4 Q. How long did you live there?</p> <p>5 A. Five years.</p> <p>6 Q. That's in Manhattan?</p> <p>7 A. Ahuh.</p> <p>8 Q. Do you own any real estate in New York</p> <p>9 State?</p> <p>10 A. Yes.</p> <p>11 Q. What is that real estate?</p> <p>12 A. I own my townhouse on [REDACTED] and I</p> <p>13 own some property upstate.</p> <p>14 Q. Where upstate?</p> <p>15 A. Some vacant, undeveloped property in --</p> <p>16 I've been there once. Where is it? It's</p> <p>17 Cobbleskill, Cobbleskill, New York. It's just</p> <p>18 vacant land.</p> <p>19 Q. Do you own any other real estate in</p> <p>20 another state or another country?</p> <p>21 A. Yes, in another state, Connecticut and</p> <p>22 the State of Washington.</p> <p>23 Q. What do you own in Connecticut?</p> <p>24 A. Connecticut I own my house, and in the</p> <p>25 State of Washington I own my parents' house and</p>
<p style="text-align: right;">Page 10</p> <p>1 M. Savage</p> <p>2 Q. Mr. Savage, are you currently married?</p> <p>3 A. Yes.</p> <p>4 Q. What is your spouse's name and</p> <p>5 occupation?</p> <p>6 A. Sandra Savage. She's a stay-at-home</p> <p>7 mom.</p> <p>8 Q. Do you have any children?</p> <p>9 A. Two.</p> <p>10 Q. How old are they?</p> <p>11 A. [REDACTED] and [REDACTED]</p> <p>12 Q. Are these the only children you have?</p> <p>13 A. Yes.</p> <p>14 Q. Do you pay any child support to anyone</p> <p>15 else for any children?</p> <p>16 A. No.</p> <p>17 Q. What is your home address?</p> <p>18 A. [REDACTED]</p> <p>19 [REDACTED]</p> <p>20 Q. With whom do you reside there?</p> <p>21 A. With my wife and kids.</p> <p>22 Q. How long have you resided there?</p> <p>23 A. About a year.</p> <p>24 Q. Where did you reside previous to that</p> <p>25 going back five years, please?</p>	<p style="text-align: right;">Page 12</p> <p>1 M. Savage</p> <p>2 my sister's house, and a four-plex.</p> <p>3 Q. Do you own a car, boat, aircraft or</p> <p>4 motorcycle?</p> <p>5 A. Car.</p> <p>6 Q. What kind of car is it?</p> <p>7 A. I have a Mercedes SUV.</p> <p>8 Q. Just one?</p> <p>9 A. No. Well, my wife's cars?</p> <p>10 Q. Do you own them?</p> <p>11 A. No, they're in her name.</p> <p>12 Q. Do you have a safety deposit box?</p> <p>13 A. No.</p> <p>14 Q. Do you have any retirement savings,</p> <p>15 stocks or investments?</p> <p>16 A. Yes.</p> <p>17 Q. Without going into full detail, give me</p> <p>18 sort of a general idea.</p> <p>19 A. It's pretty simple. I have a Merrill</p> <p>20 Lynch account and then I have a 401K from --</p> <p>21 yeah, 401K from my previous employer,</p> <p>22 Pricewaterhouse, and currently at The Tax Club.</p> <p>23 Q. Were you ever enlisted in the military?</p> <p>24 A. No.</p> <p>25 Q. What is your social security number,</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 13

1 M. Savage
2 please?
3 A. [REDACTED]
4 Q. And your date of birth, sir?
5 A. [REDACTED]
6 Q. Do you have a driver's license with you?
7 A. Yes.
8 Q. Can you show it to me, please?
9 A. Sure.
10 MS. PROSPER: Thank you.
11 Let the record reflect that the witness
12 has handed me his driver's license and prior
13 to the beginning of the subpoena hearing I
14 made a copy of both front and back of this
15 driver's license. It reads: Michael Savage,
16 Michael M. Savage, [REDACTED]
[REDACTED] and the
18 number on the license is [REDACTED], and I ask
19 you to please mark and enter this in evidence
20 as AG Number 3.
21 (Whereupon, AG Exhibit-3, Copy of
22 driver's license, was marked in evidence, as
23 of this date by the Reporter.)
24 Q. What is your highest level of education?
25 A. I have a degree from -- bachelor of

Page 14

1 M. Savage
2 science degree from Brigham Young University.
3 Q. What was your major?
4 A. Accounting.
5 Q. Do you have any other degrees or
6 certifications?
7 A. I have a CPA license that is inactive.
8 I haven't kept it up. You know, I haven't kept
9 it active, but, yeah, I was a CPA.
10 Q. Other than The Tax Club, I'll ask you a
11 lot of questions about that later, have you
12 previously had any interest in any other tax or
13 business organization related company?
14 A. "Interest" meaning ownership?
15 Q. Ownership, yeah.
16 A. In a tax related --
17 Q. Tax related or business organization
18 related company.
19 A. I own other companies or have interest
20 in other companies.
21 Q. You do?
22 A. Yes. I own a lounge up the street,
23 109th and Columbus.
24 Q. What's the name of it?
25 A. It was called La Negrita. Now they just

Page 15

1 M. Savage
2 changed it to Noco, north of Columbus. I own
3 some real estate that's in companies.
4 Q. What kind of companies?
5 A. Like an LLC.
6 Q. What does the company do?
7 A. It's just holds the real estate.
8 Q. This is the real estate you previously
9 testified about?
10 A. Yes.
11 Q. The upstate real estate?
12 A. Yes.
13 Q. And the two houses?
14 A. Yes.
15 Any interest in businesses? I have a
16 consulting company.
17 Q. What kind of consulting?
18 A. It's just an S corporation that manages
19 my properties and some other different business
20 deals that -- where I get -- you know, I get a
21 commission or broker fee on. That's it. Those
22 are my business interests.
23 Q. What is the name of the LLC that holds
24 your interests?
25 A. I have Utsayantha, U-T-S-A-Y-A-N-T-H-A,

Page 16

1 M. Savage
2 LLC.
3 Q. Where is that incorporated?
4 A. In New York.
5 Q. Just in sum and substance, what --
6 A. That holds the properties here.
7 Q. Here in New York State?
8 A. Yes. And then I have Celina
9 Enterprises, C-E-L-I-N-A Enterprises, and that
10 runs the coffee shop here on 109th Street, that
11 owns that, has a liquor license in its name, and
12 then I also have a -- what else do I have?
13 What's it called? Tuncol, LLC.
14 Q. Spell it.
15 A. T-U-N-C-O-L, LLC in Washington State.
16 Q. What is Tuncol?
17 A. It does consulting and real estate
18 services for the property I own in Washington
19 State.
20 Q. By "property," are those the homes you
21 mentioned earlier in your testimony?
22 A. Yes.
23 Q. Are there any commercial properties?
24 A. Four-plex.
25 Q. Is it rented?

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 17</p> <p>1 M. Savage</p> <p>2 A. Loosely to a sister-in-law who doesn't</p> <p>3 pay rent, but yes.</p> <p>4 Q. Can you describe your employment history</p> <p>5 for the last 10 years?</p> <p>6 A. Sure.</p> <p>7 Q. Please.</p> <p>8 A. Prior to working at The Tax</p> <p>9 Club/Manhattan Professional Group, one and the</p> <p>10 same, I worked at Pricewaterhouse for</p> <p>11 approximately five years in the fraud</p> <p>12 investigation department.</p> <p>13 Q. What years, approximately?</p> <p>14 A. '98 to 2003.</p> <p>15 Q. When did you begin to affiliate with The</p> <p>16 Tax Club?</p> <p>17 A. In 2003.</p> <p>18 Q. Have you ever been fired from any</p> <p>19 position, other than for downsizing or</p> <p>20 restructuring?</p> <p>21 A. No.</p> <p>22 Q. Did any of your prior jobs require you</p> <p>23 to supervise others?</p> <p>24 A. Yes.</p> <p>25 Q. If so, how many people did you</p>	<p style="text-align: right;">Page 19</p> <p>1 M. Savage</p> <p>2 was a dream of his to have a business in New</p> <p>3 York, so after looking into what The Tax Club was</p> <p>4 and the potential, at that point I decided to</p> <p>5 join as a head accountant. I was the only CPA</p> <p>6 that Ted knew at the time so -- and we were</p> <p>7 friends, we went to college together, and that</p> <p>8 was in 2003, and then I just progressed through</p> <p>9 the company to become the President, I would say,</p> <p>10 two years ago, two or three years ago.</p> <p>11 MR. MITCHELL: Let me interject. I got</p> <p>12 to ask a question.</p> <p>13 What about The Tax Club in 2003 did you</p> <p>14 know surrounding the organization,</p> <p>15 surrounding what the purpose of The Tax Club</p> <p>16 was in 2003?</p> <p>17 THE WITNESS: In 2003 I understood it to</p> <p>18 be what it is now, essentially tax</p> <p>19 preparation, tax consulting, tax planning,</p> <p>20 services for the small business, brand new</p> <p>21 business owner, entrepreneur.</p> <p>22 What I liked -- what I saw that I really</p> <p>23 liked was that it brought bigger services</p> <p>24 like what I was used to doing at</p> <p>25 Pricewaterhouse to a brand new small business</p>
<p style="text-align: right;">Page 18</p> <p>1 M. Savage</p> <p>2 supervise?</p> <p>3 A. Five people.</p> <p>4 Q. What were their positions?</p> <p>5 A. Junior associates, senior associates at</p> <p>6 Pricewaterhouse.</p> <p>7 Q. What was your position at</p> <p>8 Pricewaterhouse?</p> <p>9 A. Senior Associate.</p> <p>10 Q. What is your current position at The Tax</p> <p>11 Club?</p> <p>12 A. I'm the President.</p> <p>13 Q. How did you first come to be related to</p> <p>14 The Tax Club? Can you give me a little history</p> <p>15 about The Tax Club, please?</p> <p>16 A. Sure. In 2003 I received a phone call</p> <p>17 from a friend of mine from college, Ted Johnson,</p> <p>18 the owner of The Tax Club, and he asked me for</p> <p>19 some assistance, some accounting assistance with</p> <p>20 his new business, The Tax Club, and so --</p> <p>21 Q. Where was this business?</p> <p>22 A. It's in Utah, and so I said, you know,</p> <p>23 I'm fine here at Pricewaterhouse and don't really</p> <p>24 want to move but I'll help you out, and I know he</p> <p>25 wanted to open a business in New York City. It</p>	<p style="text-align: right;">Page 20</p> <p>1 M. Savage</p> <p>2 owner.</p> <p>3 BY MS. PROSPER:</p> <p>4 Q. Tell me the name of your friend again.</p> <p>5 A. Ted Johnson.</p> <p>6 Q. What was Ted Johnson's position with the</p> <p>7 Utah Tax Club?</p> <p>8 A. Owner.</p> <p>9 Q. He was the owner?</p> <p>10 A. He still is.</p> <p>11 Q. Was The Tax Club ever known by any other</p> <p>12 names?</p> <p>13 A. No.</p> <p>14 Q. What are your current responsibilities</p> <p>15 at The Tax Club?</p> <p>16 A. As the President?</p> <p>17 Q. Yes.</p> <p>18 A. I oversee reporting, fulfillment</p> <p>19 reporting. I oversee finances. I meet regularly</p> <p>20 with the department heads, the heads of the</p> <p>21 different departments and talk about customer</p> <p>22 service, product fulfillment, client relations,</p> <p>23 growth in the business, marketing. I'm high</p> <p>24 level. I admittedly don't -- I'll tell you, you</p> <p>25 know, I don't know all the details, but yeah, I</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 21

1 M. Savage
2 primarily meet with the department heads and
3 discuss direction for the company and make
4 decisions on where to take the company from a
5 marketing perspective, from a financial
6 perspective, from an operational perspective. I
7 allow a lot of the department heads a great deal
8 of flexibility, you know, but ultimately I
9 delegate to them the ability to make their own
10 decisions and I review and discuss and consult a
11 lot.
12 Q. Are you sort of the top person at The
13 Tax Club in New York?
14 A. In New York, yes.
15 Q. So I'm going to get some details on
16 that.
17 What kind of corporate entity is The Tax
18 Club, the thing you call "The Tax Club"?
19 A. It's an S corporation.
20 Q. Where is it incorporated?
21 A. Utah.
22 Q. Is it incorporated in anyway in New York
23 State?
24 A. It's registered here.
25 Q. "Registered," and what is it registered

Page 22

1 M. Savage
2 as?
3 A. Doing business as The Tax Club, a Utah
4 corporation.
5 Q. Doing business here in New York?
6 A. Yes.
7 Q. Is it known here in New York by any
8 other name?
9 A. No.
10 Q. What about Manhattan Professional Group?
11 A. Manhattan Professional Group is a
12 separate entity, another S corporation that is --
13 that deals with -- that owns the brands to other
14 products that aren't tax related. We set up
15 Manhattan Professional Group to manage business
16 services that don't necessarily only pertain to
17 tax.
18 Q. We'll talk about those a little bit
19 later.
20 Can you give me the names and addresses
21 of the principal places of business for The Tax
22 Club?
23 A. Principal place would be here in New
24 York City in the Empire State Building, 350 Fifth
25 Avenue, the entire 60th floor, New York, New York

Page 23

1 M. Savage
2 10118.
3 Q. What about the Utah?
4 A. Utah, 1620 -- no, sorry. It is 1492 --
5 1429 Silicone Way, St. George, Utah.
6 Q. Can you explain to me the relationship
7 between the Utah office and the New York office?
8 A. Absolutely. Everything started in the
9 St. George, Utah office and we originally set up
10 the office in New York City strictly for
11 fulfillment, just preparing tax returns and
12 offering tax consulting to the clients in which
13 the St. George office sold services to. They're
14 primarily a sales division, just sales. I mean,
15 originally it was all there, and so we set that
16 up in 2003, and the relationship still to this
17 day, everything that is sold in New York State is
18 fulfilled in -- I'm sorry, everything that's sold
19 in Utah, in the State of Utah is fulfilled here
20 in New York City.
21 Q. When you say "fulfilled," can you
22 elaborate?
23 A. Tax preparation, the preparation of tax
24 returns, signing tax returns, offering tax
25 advice, tax consulting, tax planning, business

Page 24

1 M. Savage
2 plans. We'll get into that, right?
3 Q. Yes.
4 Are there offices in any other states
5 besides Utah and New York?
6 A. We have had offices in other states.
7 Currently?
8 Q. Yes.
9 A. No.
10 Q. Where did you used to have offices?
11 A. We've had an office in Arizona,
12 Washington State and Texas and Wyoming.
13 Q. Just a little bit more about how you
14 progressed through. You testified earlier that
15 you started out as head accountant?
16 A. Ahuh.
17 Q. And then can you just give me a little
18 bit of a progression of how you came to be the
19 President?
20 A. Absolutely. I started out as the head
21 accountant. My first task was to fulfill the tax
22 returns. Really basic, preparing tax returns,
23 get them out the door, servicing the clients.
24 Q. I'm going to interrupt.
25 When you talk about "clients," who are

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 25</p> <p>1 M. Savage</p> <p>2 these "clients"?</p> <p>3 A. Small businesses that are in all 50</p> <p>4 states. And soon thereafter, having a business</p> <p>5 background, I guess, I started taking over more</p> <p>6 and more administrative duties of the business.</p> <p>7 Q. That's here in New York or in Utah?</p> <p>8 A. In New York. Everything has always been</p> <p>9 in New York. I've always been in New York. And</p> <p>10 we just started doing more and more in New York.</p> <p>11 We started up selling other products,</p> <p>12 bookkeeping, payroll, business plans, and that</p> <p>13 was being -- those were being sold for the</p> <p>14 first -- for the first time something was being</p> <p>15 sold in New York and fulfilled in New York, and</p> <p>16 the company naturally grew in New York, but the</p> <p>17 way that I progressed through was just taking on</p> <p>18 more responsibility and running more of the</p> <p>19 day-to-day administrative as opposed to the</p> <p>20 day-to-day fulfillment. Again, preparing the tax</p> <p>21 returns.</p> <p>22 Q. So how much of the business is dedicated</p> <p>23 to preparing tax returns versus some of the other</p> <p>24 stuff that you've described?</p> <p>25 A. Tax returns are our primary -- that's</p>	<p style="text-align: right;">Page 27</p> <p>1 M. Savage</p> <p>2 Q. As what officer did you --</p> <p>3 A. I don't remember what -- what -- you</p> <p>4 know, what we said on the incorporation papers,</p> <p>5 but now I'm the President.</p> <p>6 Q. Were you involved in the actual drafting</p> <p>7 and signing of the incorporation -- of the</p> <p>8 registration papers as you called them earlier</p> <p>9 here in New York?</p> <p>10 A. For Manhattan Professional Group, I</p> <p>11 believe so.</p> <p>12 Q. Is Manhattan Professional Group</p> <p>13 something that you yourself started sort of as an</p> <p>14 offshoot or Manhattan Professional Group is a</p> <p>15 part of The Tax Club?</p> <p>16 A. Well, this is how -- originally we set</p> <p>17 up an entity to sign the lease just to be -- just</p> <p>18 to sign the lease in the Empire State Building,</p> <p>19 it was Manhattan Professional Group, and Ted owns</p> <p>20 it, owned it. He set it up. I think I might</p> <p>21 have signed it as a resident agent or point of</p> <p>22 contact, and then when we started to develop</p> <p>23 other products, bookkeeping, payroll business</p> <p>24 plans, we were going to incorporate -- you know,</p> <p>25 each brand is its own business, but we just put</p>
<p style="text-align: right;">Page 26</p> <p>1 M. Savage</p> <p>2 our core product. Every time we talk to a</p> <p>3 client, we introduce them to the -- to our tax</p> <p>4 club membership, which is an incorporation</p> <p>5 service and tax preparation, tax consulting,</p> <p>6 year-round tax consulting, and from there,</p> <p>7 depending on their situation, we offer other up</p> <p>8 sells, whether it be a bookkeeping packages,</p> <p>9 payroll services, business plans, so on.</p> <p>10 Q. In Utah there's only one partner. Are</p> <p>11 there other partners either in Utah or in New</p> <p>12 York?</p> <p>13 A. There's only one owner.</p> <p>14 Q. One owner of the whole entire Tax Club?</p> <p>15 A. Yes.</p> <p>16 Q. So there's no other people sharing in</p> <p>17 the profits, so to speak?</p> <p>18 A. No.</p> <p>19 Q. Were you involved in the incorporation</p> <p>20 of the company?</p> <p>21 A. No. The company was already</p> <p>22 incorporated for a couple years before I started.</p> <p>23 I was involved in the formation of Manhattan</p> <p>24 Professional Group as an officer but not as an</p> <p>25 owner.</p>	<p style="text-align: right;">Page 28</p> <p>1 M. Savage</p> <p>2 them all under Manhattan Professional Group since</p> <p>3 we already had that company up and running and it</p> <p>4 was, you know, vague enough to be able to</p> <p>5 encompass more than tax. Tax Club is like only</p> <p>6 tax.</p> <p>7 Q. You said that the gentleman -- I'm</p> <p>8 terrible with names.</p> <p>9 A. Ted.</p> <p>10 Q. Ted, thank you.</p> <p>11 Ted owns Manhattan Professional Group as</p> <p>12 well?</p> <p>13 A. Yes.</p> <p>14 Q. But they are two separate entities?</p> <p>15 A. Yes.</p> <p>16 Q. And is Manhattan Professional Group</p> <p>17 incorporated in Utah or just in New York?</p> <p>18 A. Just in New York, as far as I know.</p> <p>19 They might be registered as a foreign entity in</p> <p>20 Utah for tax purposes, but I couldn't say for</p> <p>21 certain.</p> <p>22 Q. I'm going to show you for informational</p> <p>23 purposes what I'm going to call AG Exhibit-4 for</p> <p>24 identification, please.</p> <p>25 (Whereupon, AG Exhibit-4, Incorporation</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 29	Page 31
<p>1 M. Savage</p> <p>2 paperwork for Manhattan Professional Group,</p> <p>3 Inc., was marked for identification, as of</p> <p>4 this date by the Reporter.)</p> <p>5 Q. AG Exhibit-4 for identification is a</p> <p>6 four-page exhibit.</p> <p>7 I'm going to ask you to just look it</p> <p>8 over and see if you recognize what it is, if it's</p> <p>9 familiar to you?</p> <p>10 A. Yes. It's the Certificate of</p> <p>11 Incorporation.</p> <p>12 Q. For?</p> <p>13 A. Manhattan Professional Group.</p> <p>14 Q. That's how many of the four pages?</p> <p>15 A. This would be, okay, the Articles of</p> <p>16 Incorporation. This is the certificate</p> <p>17 (indicating).</p> <p>18 Q. The third page you're referring to?</p> <p>19 A. Yes. Registered Agent, that's what I</p> <p>20 was. Okay, this is the S Corp. Election.</p> <p>21 Q. The S Corp. --</p> <p>22 A. S Corp. Election to be taxed as an S</p> <p>23 Corp., meaning flow-through entity.</p> <p>24 MS. PROSPER: I'm going to put these</p> <p>25 into evidence since they're documents you</p>	<p>1 M. Savage</p> <p>2 going to ask to be marked as Exhibit-5.</p> <p>3 (Whereupon, AG Exhibit-5, Seven-page</p> <p>4 document, was marked for identification, as</p> <p>5 of this date by the Reporter.)</p> <p>6 Q. Mr. Savage, I'm going to ask you to take</p> <p>7 a look at this, the seven pages I think it was,</p> <p>8 and tell me if it's something that's familiar to</p> <p>9 you.</p> <p>10 A. Yes, organizational chart.</p> <p>11 Q. Is this structure still in operation?</p> <p>12 A. Yes.</p> <p>13 Q. Are the same people that are indicated</p> <p>14 on this -- these charts -- this is actually part</p> <p>15 of it, I think. It talks about the various</p> <p>16 departments.</p> <p>17 A. Okay.</p> <p>18 Q. It came together in the production.</p> <p>19 A. Okay. He left a week ago, Database</p> <p>20 Management, Terry Owens.</p> <p>21 Q. You can write on that. I'll give you a</p> <p>22 pen. If you know the name of the new person who</p> <p>23 is in that position --</p> <p>24 A. Still looking for somebody.</p> <p>25 Q. So you could just put "vacant," that</p>
Page 30	Page 32
<p>1 M. Savage</p> <p>2 recognize as being incorporation papers for</p> <p>3 Manhattan Professional Group as AG 4.</p> <p>4 (Whereupon, AG Exhibit-4, as previously</p> <p>5 described, was marked for identification, as</p> <p>6 of this date by the Reporter.)</p> <p>7 MS. PROSPER: I'll say it again, if you</p> <p>8 know the answers, please provide them. If</p> <p>9 you don't know the answers but know who could</p> <p>10 provide the answers, you know, don't guess or</p> <p>11 don't -- you know, we could just keep moving</p> <p>12 on.</p> <p>13 Q. How many employees work at each</p> <p>14 location, in New York and Utah?</p> <p>15 A. It changes. I tried to get -- I tried</p> <p>16 to nail that down before I came here in</p> <p>17 anticipation of this question, but right now we</p> <p>18 have approximately 200 total employees. In New</p> <p>19 York I would say about 150 to 180, it varies, and</p> <p>20 in Utah I would say 20 to 30.</p> <p>21 Q. I'm showing you what I'm going to mark</p> <p>22 as AG Exhibit-5. These documents, again, were</p> <p>23 culled from the production that The Tax Club made</p> <p>24 in and around April of 2010, and this is for</p> <p>25 identification a seven-page document that I'm</p>	<p>1 M. Savage</p> <p>2 would be great.</p> <p>3 MR. MITCHELL: And initial it.</p> <p>4 (The witness complied.)</p> <p>5 MS. PROSPER: Thanks.</p> <p>6 A. This is limited, if any, activity.</p> <p>7 There isn't a sales force anymore, so should I --</p> <p>8 Q. Yes, please.</p> <p>9 A. They sell one of our brands. It's</p> <p>10 not -- we're not necessarily incorporated there.</p> <p>11 We outsource these sales.</p> <p>12 Q. You're referring to --</p> <p>13 A. Clearwater.</p> <p>14 Q. -- "3) Clearwater, Florida"?</p> <p>15 A. Should I say exactly what they sell?</p> <p>16 Q. Sure.</p> <p>17 A. Corporate Tax Network. Corporate Tax</p> <p>18 Network.</p> <p>19 MR. SANSCRAINTE: Could I interrupt just</p> <p>20 one second? I'm worried about the court</p> <p>21 reporter. Are you okay? Just in general</p> <p>22 just kind of describe what you're doing as</p> <p>23 you're doing it.</p> <p>24 MS. PROSPER: Right, you're marking up</p> <p>25 the 7th page of the exhibit, AG Number 5,</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

Page 33	Page 35
<p>1 M. Savage 2 updating it, basically. 3 MR. MITCHELL: For identification. 4 MS. PROSPER: For identification. 5 Q. So is this a fair and accurate 6 representation of the Manhattan Professional 7 Group as it stands in New York? 8 A. Yes. 9 MS. PROSPER: I'm going to enter AG 5 10 into evidence, please. 11 (Whereupon, AG Exhibit-5, as previously 12 described, was marked in evidence, as of this 13 date by the Reporter.) 14 MS. PROSPER: Now that we have AG Number 15 5 in evidence, I just want to note for the 16 record a few changes made by the witness, 17 Mr. Savage. 18 On the fourth page of the exhibit, 19 Database Manager, the name Terry Owens is 20 crossed out and that position is vacant, and 21 on the sixth page the name Richard Cappelli 22 is crossed out and that position of Sales 23 Manager for Team C is now vacant, and on the 24 last page of the exhibit entitled Manhattan 25 Professional Group Offices, under Number 2,</p>	<p>1 M. Savage 2 and he oversees all of our tax operations, 3 meaning he ensures that we're compliant with all 4 the IRS regulations as a tax preparation firm. 5 He also makes sure that the clients are getting 6 fulfilled. Whatever package or whatever product 7 they bought, he ultimately makes sure that they 8 get exactly what it is that they bought. He also 9 oversees client services which also deals with 10 clients. It's a customer service department. 11 When clients are -- you know, if they have any 12 issues that fall outside of our process, he deals 13 with those, with the people in charge of those 14 clients and operations in general. Again, he 15 assures that everybody gets their -- our clients 16 get their tax returns, makes sure that we sign 17 them. He also oversees our bookkeeping product. 18 He makes sure that the books are prepared in 19 accordance with Generally Accepted Accounting 20 Principles, and his role is very compliance 21 focused with the IRS. 22 Brendan Pack is our Sales Manager. He 23 is in charge of sales, making sure that we 24 continue to make sales, and he also oversees the 25 sales managers making sure that they are -- that</p>
Page 34	Page 36
<p>1 M. Savage 2 Seattle, Washington (a) Sales Floor is 3 crossed out and Number 3, Clearwater, Florida 4 (outsourcing) (a) Sales Floor Mr. Savage 5 added a slash and Corporate Tax Network. 6 Q. Can you briefly describe the roles of 7 the various departments and how they might 8 interface with each other? 9 A. Sure. I'll start from the top. 10 Q. Please. 11 A. I've already described what I do. 12 Lindsey Kush, we worked together at 13 Pricewaterhouse, and I brought her on to run as 14 the controller essentially. She deals with all 15 of our -- the accounting, all of our debits and 16 credits of the money coming in and the money 17 going out. She also oversees human resources, 18 public relations, but her primary duty is as a 19 controller. She sets the budgets. She makes 20 financial decisions on -- she makes a lot 21 decisions based on what bills get paid and how 22 much we have per department. That's what she 23 does as a controller. 24 Gary Milkwick, he is Director of 25 Operations. He's a certified public accountant</p>	<p>1 M. Savage 2 they aren't only making their -- you know, 3 reaching their goals or their -- or whatnot, you 4 know, bringing in revenue but also that they are 5 in compliance with our sales best practices 6 policies. He's involved with creating and 7 managing sales teams. 8 Lindsey, again, she's over billing. Her 9 right-hand person would be Christine Vazquez, and 10 what Lindsey oversees is making sure that 11 everyone gets refunded who requests a refund 12 within our refund policy. She makes sure that 13 people don't fall through the cracks. She 14 manages our billing practices, making sure that 15 we are in compliance with general merchant 16 account, you know, Visa/MasterCard regulations, 17 making sure that we handle our refunds and 18 chargebacks effectively. She oversees human 19 resources. I don't think she does much with 20 human resources. 21 Tracy Stead is our HR manager and she 22 oversees hiring and firing and administrating 23 drug testing, making sure that employees sign our 24 employee handbooks, 401K administration, health 25 care administration, makes sure everyone gets</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 37	Page 39
<p>1 M. Savage</p> <p>2 health care. She does some recruiting and she's</p> <p>3 in charge of all the compliance that we have with</p> <p>4 human resource law and employment law.</p> <p>5 Matthew Cohen is no longer with us.</p> <p>6 Q. Let the record reflect that the witness</p> <p>7 is making edits to the second page of the</p> <p>8 exhibit.</p> <p>9 A. Her name is Shakista. I don't know the</p> <p>10 last name.</p> <p>11 Naressa, Linda oversees Naressa.</p> <p>12 Naressa makes sure that we process our</p> <p>13 chargebacks. We do quite a bit of volume. We do</p> <p>14 close to 1,000 transactions a week and</p> <p>15 inevitably -- we have extensive merchant account</p> <p>16 maintenance, meaning when chargebacks come in, a</p> <p>17 chargeback is when a client doesn't necessarily</p> <p>18 recognize the charge or calls their credit card</p> <p>19 company and reverses the charge for various</p> <p>20 reasons. She does the research and presents our</p> <p>21 case to the credit card companies and gets them</p> <p>22 reversed, meaning we win the chargeback. She's</p> <p>23 in charge of winning chargebacks.</p> <p>24 Q. Since we talked about the edits earlier,</p> <p>25 I just want to reflect the actual edit made on</p>	<p>1 M. Savage</p> <p>2 the enrolled agent ability to talk on a client's</p> <p>3 behalf to the IRS and represent a client to the</p> <p>4 IRS, and it's actually more extensive than a</p> <p>5 certified public accounting as far as tax</p> <p>6 preparation, tax planning, tax -- very tax</p> <p>7 specific certification.</p> <p>8 So Joe Rush is in charge of our</p> <p>9 Corporate Department. What our Corporate</p> <p>10 Department does in general is help assist clients</p> <p>11 in registering the appropriate entity from a tax</p> <p>12 perspective, what benefits them, you know. What</p> <p>13 we do is we go over different tax scenarios,</p> <p>14 whether they're a C Corp., LLC, S Corp., sole</p> <p>15 proprietor, and we assist the clients in making</p> <p>16 that decision as to what entity they want to</p> <p>17 structure and we prepare all the incorporation</p> <p>18 papers for them.</p> <p>19 Q. Which division does that specifically?</p> <p>20 A. It's either Corporate Department or</p> <p>21 Incorporation Department.</p> <p>22 Q. That's overseen by?</p> <p>23 A. Joe Rush who assist Director of Tax</p> <p>24 Operations. Again, I think we have filed over</p> <p>25 8,000 businesses and --</p>
Page 38	Page 40
<p>1 M. Savage</p> <p>2 page two to replacing Matthew Cohen as Assistant</p> <p>3 to the HR Manager with the first name Shakista,</p> <p>4 S-H-A-K-I-S-T-A. Sorry to interrupt you.</p> <p>5 A. No problem.</p> <p>6 You know, feel free to interrupt me. I</p> <p>7 could elaborate on what they do.</p> <p>8 Q. This is exactly what we need.</p> <p>9 A. This is high level. I mean, I could</p> <p>10 drill down and talk about details.</p> <p>11 Q. Those details may come up, but let's go</p> <p>12 ahead with the overhead.</p> <p>13 A. Gary Milkwick, Vice President of</p> <p>14 Operations. He's in charge of -- we'll start</p> <p>15 from the top, tax operations. Joe Rush is our</p> <p>16 Director of Tax Operations. He's an EA, Enrolled</p> <p>17 Agent.</p> <p>18 Q. Describe what "enrolled agent" is.</p> <p>19 A. An enrolled agent is -- every one of our</p> <p>20 tax preparers are tax professionals either as a</p> <p>21 CPA or EA or is in the process of becoming one,</p> <p>22 whether they've taken parts of the test or the</p> <p>23 whole test, and essentially what this is is -- an</p> <p>24 enrolled agent has a very tax specific</p> <p>25 certification that the IRS provides that it gives</p>	<p>1 M. Savage</p> <p>2 Q. When you say you filed them, what does</p> <p>3 that mean?</p> <p>4 A. I mean, we prepared the corporation</p> <p>5 documentation. We send that documentation to the</p> <p>6 client, they sign it, they pay the state fee and</p> <p>7 send it in.</p> <p>8 Q. What happens when they do that? What's</p> <p>9 the end result of that process?</p> <p>10 A. Then they form an entity, whether it's</p> <p>11 an LLC or an S Corp. or a C Corp., they have an</p> <p>12 official entity that -- in which they're doing</p> <p>13 business. They're doing business within that</p> <p>14 entity, depending whether they have a local, I</p> <p>15 don't know, coffee shop, bookstore or they have a</p> <p>16 web site that does -- you know, sells things on</p> <p>17 line or real estate. We have a bee farmer.</p> <p>18 Q. You provide this service throughout the</p> <p>19 country?</p> <p>20 A. Yes, in all 50 states.</p> <p>21 Q. What about internationally?</p> <p>22 A. We do some work in Canada, not that</p> <p>23 much, pretty immaterial, but yeah, we have</p> <p>24 serviced some clients in Canada.</p> <p>25 Q. Any other countries?</p>

<p style="text-align: right;">Page 41</p> <p>1 M. Savage</p> <p>2 A. Australia, same thing, not to the extent</p> <p>3 that we deal with Canada, but I would say it's</p> <p>4 immaterial as well as -- "immaterial" meaning</p> <p>5 it's a small percentage, less than five percent</p> <p>6 of our business, as well as England. You know,</p> <p>7 pretty much the English speaking countries.</p> <p>8 Okay, so Joe Rush is also -- he also</p> <p>9 oversees our different accounting zones. We have</p> <p>10 divided up our accountants based on time zones.</p> <p>11 Because we are in every state, we have tens of</p> <p>12 thousands of clients throughout the country and</p> <p>13 it's easier from a phone management, from a time</p> <p>14 management perspective to break it up Eastern,</p> <p>15 Mountain, Central, Pacific zones so we have the</p> <p>16 phones manned during those times, and so, again,</p> <p>17 that's just how we organize our tax preparation,</p> <p>18 and, you know, we'll prepare 50 to 75,000 tax</p> <p>19 returns a year and this is just part of the</p> <p>20 organization of handling that volume.</p> <p>21 Q. Can I ask you, now that you've given us</p> <p>22 an amount of the number of returns, how many CPAs</p> <p>23 or registered agents do you have servicing that</p> <p>24 number of clients?</p> <p>25 A. We have approximately 100 tax</p>	<p style="text-align: right;">Page 43</p> <p>1 M. Savage</p> <p>2 A. Tax professionals. The breakdown I</p> <p>3 don't know. It fluctuates.</p> <p>4 Q. Do you know who would know specifically</p> <p>5 how many CPAs and registered agents?</p> <p>6 A. Gary Milkwick or I could find out today.</p> <p>7 You know, all of our zone managers are either</p> <p>8 CPAs or EAs. The management team is all</p> <p>9 certified and they, again, sign the tax return.</p> <p>10 If you prepare a return, you have to sign it. If</p> <p>11 you touch a return, you have to sign it.</p> <p>12 Q. So even though the tax professionals who</p> <p>13 aren't CPAs or EAs, do they sign too, like an</p> <p>14 intern helped out with this, recognition that</p> <p>15 someone besides the person who signed it touched</p> <p>16 it as you described they legally can?</p> <p>17 A. I think that's changing this year where</p> <p>18 every tax preparer has to be certified, which is</p> <p>19 a great thing, but the way it works as per IRS</p> <p>20 regulations is that the manager, the last person</p> <p>21 to review it -- and all of our tax returns go</p> <p>22 through several review processes, so the manager</p> <p>23 reviews the tax return, the manager has to sign</p> <p>24 so that in the event -- which is not the case,</p> <p>25 but if a tax professional, I don't even think</p>
<p style="text-align: right;">Page 42</p> <p>1 M. Savage</p> <p>2 professionals, some are CPAs, some are EAs.</p> <p>3 Q. Are some not?</p> <p>4 A. Some are admin, yeah, but anyone who is</p> <p>5 talking to a client or touching a tax return is</p> <p>6 in -- you know, we have a process. It's very</p> <p>7 similar to what we did at Pricewaterhouse where</p> <p>8 they're on a path to becoming an EA or CPA. They</p> <p>9 have to be.</p> <p>10 Q. When you say "on the path," are they</p> <p>11 attending school or classes elsewhere or is that</p> <p>12 part of The Tax Club training or in-house</p> <p>13 program?</p> <p>14 A. Yeah, we have a lot of in-house</p> <p>15 training. We also have -- we also pay for review</p> <p>16 courses like Becker, CPA review courses. We'll</p> <p>17 pay for that. We'll cover those expenses. But</p> <p>18 all of our professionals are -- you know, they</p> <p>19 already have a degree.</p> <p>20 Q. Like what kinds of degrees?</p> <p>21 A. Accounting degree, and so, yeah, they're</p> <p>22 in route to becoming certified.</p> <p>23 Q. You used the sum 100. You said you have</p> <p>24 100 tax professionals or 100 CPAs and registered</p> <p>25 agents.</p>	<p style="text-align: right;">Page 44</p> <p>1 M. Savage</p> <p>2 they need a college degree, I think HR Block they</p> <p>3 don't necessarily need college degrees to sign</p> <p>4 returns, but in our case, yes.</p> <p>5 Q. How many managers do you have?</p> <p>6 A. We have one representing each zone, zone</p> <p>7 managers.</p> <p>8 Q. How many zones are there?</p> <p>9 A. Four.</p> <p>10 Q. To represent the time zones you're</p> <p>11 saying?</p> <p>12 A. Yes, and then we have director of -- Joe</p> <p>13 Rush who is in charge of those four and then we</p> <p>14 have Gary who is in charge of Joe.</p> <p>15 Q. Is there anything else under operations</p> <p>16 that we didn't cover?</p> <p>17 A. Well, there's operations. I'll break it</p> <p>18 down with fulfillment. This would be</p> <p>19 fulfillment, the corporate -- set up the</p> <p>20 corporate entities, tax preparation under</p> <p>21 operations. We also have our customer service,</p> <p>22 as well as our business plans and some sales</p> <p>23 verification processes that we call compliance.</p> <p>24 Can we talk about that in operations</p> <p>25 or --</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 45</p> <p>1 M. Savage</p> <p>2 Q. Sure.</p> <p>3 A. Okay. Client services, essentially we</p> <p>4 have a department, roughly a dozen what we call</p> <p>5 account executives but they're customer service</p> <p>6 representatives. We found that account</p> <p>7 executives, the clients like that term, and we</p> <p>8 assign every client when they come on board a</p> <p>9 client executive. The next day the account</p> <p>10 executive has a meeting with the client and let's</p> <p>11 them know they're the point of contact.</p> <p>12 Q. How do they have a meeting, in person</p> <p>13 or --</p> <p>14 A. No. That's the important point, is that</p> <p>15 99 percent of our -- fulfillment of our</p> <p>16 operations is not in person. It's all over the</p> <p>17 phone or via e-mail. It's all electronic. We're</p> <p>18 a virtual office, paperless office, but that's</p> <p>19 not to say that we wouldn't -- we love when</p> <p>20 clients come to visit us. We are in a sense</p> <p>21 brick and mortar that in the sense that we have</p> <p>22 25, 28,000 square feet in the Empire State</p> <p>23 Building and we love when clients come by. We</p> <p>24 take them on a tour and we do workshops every</p> <p>25 month that we allow our clients come to.</p>	<p style="text-align: right;">Page 47</p> <p>1 M. Savage</p> <p>2 individual testimonials. I know we sent them to</p> <p>3 you, but most of them come from the workshops.</p> <p>4 They're super excited. We put them in our green</p> <p>5 room and it's great PR for us, because it's a</p> <p>6 constant struggle. I think it's important to</p> <p>7 mention, the PR struggle of having a virtual</p> <p>8 office and telesales, it's tough. You could</p> <p>9 get -- you know, there's a lot of web sites out</p> <p>10 there that disparage companies, virtual companies</p> <p>11 recovery services, you know, in order to -- they</p> <p>12 get paid on causing refunds or chargebacks or AG</p> <p>13 issues for these virtual companies, and so,</p> <p>14 anyway, long story short, we're making a big push</p> <p>15 to have these face-to-face workshops and we're</p> <p>16 going to go across the country with them.</p> <p>17 Q. Do your clients come from across the</p> <p>18 country to come to New York?</p> <p>19 A. Yes.</p> <p>20 Q. You just mentioned that you're going to</p> <p>21 be going on the road --</p> <p>22 A. Yes.</p> <p>23 Q. -- with these?</p> <p>24 A. That's what we want to do and we're</p> <p>25 working that out now, but in the interim we're</p>
<p style="text-align: right;">Page 46</p> <p>1 M. Savage</p> <p>2 Q. What kind of workshops?</p> <p>3 A. Small business workshops. You know,</p> <p>4 they're free workshops. Obviously we don't sell</p> <p>5 anything at the workshop, and every client has --</p> <p>6 they tell me they're very successful. The</p> <p>7 clients love them. They're two days and we just</p> <p>8 got -- we signed a 10-year lease in the Empire</p> <p>9 State Building this year, or 2010, and we just --</p> <p>10 we obtained another 7,000 square feet where we're</p> <p>11 building a classroom or a 50-person plus</p> <p>12 conference center where we're going to really</p> <p>13 focus on these workshops. The feedback we get</p> <p>14 from our clients is that they love it, because,</p> <p>15 unfortunately, not being -- one of the challenges</p> <p>16 that we face being a virtual office is that our</p> <p>17 clients, you know, our relationship for the most</p> <p>18 part is just as a telephone relationship or</p> <p>19 e-mail relationship, and so clients will get</p> <p>20 frustrated quickly if they don't get a hold of</p> <p>21 us. They oftentimes will think that we don't</p> <p>22 exist. I think that also is a by-product of</p> <p>23 telesales, that, you know, it's just a challenge,</p> <p>24 so we found that these workshops are very</p> <p>25 effective, clients love them, and so we do</p>	<p style="text-align: right;">Page 48</p> <p>1 M. Savage</p> <p>2 sticking with our local workshops, and people</p> <p>3 love to come to New York City. It's a fun</p> <p>4 destination. We take them to the top of the</p> <p>5 Empire State Building. It's a two-day workshop,</p> <p>6 okay, so --</p> <p>7 Q. While we're talking about the</p> <p>8 operations, do you have any attorneys on your</p> <p>9 staff?</p> <p>10 A. Two full-time attorneys.</p> <p>11 Q. Who do the attorneys work under?</p> <p>12 A. Joe is our General Counsel and we have</p> <p>13 another attorney, Preston Clark, and he doesn't</p> <p>14 work as an attorney, even though he's -- he's the</p> <p>15 same thing as a CPA. He's current.</p> <p>16 MR. SANS CRAINTE: He's a licensed</p> <p>17 attorney.</p> <p>18 A. He's in charge of our customer services.</p> <p>19 We've hired him recently.</p> <p>20 Q. When you say he doesn't serve as an</p> <p>21 attorney, can you elaborate?</p> <p>22 A. He's -- he doesn't oversee our legal</p> <p>23 department or legal issues per se.</p> <p>24 Q. Do you have a legal department?</p> <p>25 A. Yes, Joe.</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 49</p> <p>1 M. Savage</p> <p>2 Q. Within your day-to-day operations, are</p> <p>3 your employees consulting with any attorneys is</p> <p>4 kind of more the question I had?</p> <p>5 A. No. Maybe some of the directors will</p> <p>6 talk to you about certain things, but I talk to</p> <p>7 Joe a lot. As far as consulting, yeah, you know,</p> <p>8 I do.</p> <p>9 Q. Thank you.</p> <p>10 On specific client matters are attorneys</p> <p>11 consulted, the two that you have, with regard to</p> <p>12 a specific client or client issue?</p> <p>13 A. Yes.</p> <p>14 Q. Can you explain how that could happen?</p> <p>15 A. Sure. We had a small claims court issue</p> <p>16 where a client wanted all their money back. We</p> <p>17 had provided extensive fulfillment for them,</p> <p>18 business plan, tax return. I'm not sure exactly</p> <p>19 what we did for them, but it was enough where</p> <p>20 they're well out of our refund policy, which is</p> <p>21 100 percent back within three days of request and</p> <p>22 15 days 85 percent back, but they were well out</p> <p>23 of that, and so they sued us in small claims</p> <p>24 court. Joe went and I think it was in mediation</p> <p>25 or something. We won.</p>	<p style="text-align: right;">Page 51</p> <p>1 M. Savage</p> <p>2 on the actual client incorporations as you say or</p> <p>3 issues with their specific fulfillment?</p> <p>4 A. No. No. We're strictly an accounting</p> <p>5 firm.</p> <p>6 Q. So you don't have any paralegals on your</p> <p>7 staff?</p> <p>8 A. No.</p> <p>9 Q. We were getting through this, so let's</p> <p>10 keep going, I guess, the organizational chart.</p> <p>11 A. Please interrupt with me questions,</p> <p>12 because, you know, there's so, so much.</p> <p>13 Q. That's fine. I want to get it from you.</p> <p>14 I don't want to interject too much. We all have</p> <p>15 an idea of what things are from looking at the</p> <p>16 paper. I really would like to just get it from</p> <p>17 you --</p> <p>18 A. Okay.</p> <p>19 Q. -- to debunk anything that's wrong in my</p> <p>20 head.</p> <p>21 A. Okay. So we have -- you know, here's</p> <p>22 another change too.</p> <p>23 Q. Okay, so let the record reflect that</p> <p>24 Mr. Savage is changing page three of now in</p> <p>25 evidence Exhibit-5.</p>
<p style="text-align: right;">Page 50</p> <p>1 M. Savage</p> <p>2 MR. SANS CRAINTE: Ahuh.</p> <p>3 A. But that would be a case where it would</p> <p>4 go to Joe, and we also have -- that's client</p> <p>5 matters which aren't as common as we have --</p> <p>6 there's -- right now, I mean, what we've been</p> <p>7 dealing with the last couple of months, so</p> <p>8 recovery services are out there. We're in</p> <p>9 litigation or trying to be in litigation with</p> <p>10 these companies that will contact our clients and</p> <p>11 tell them the refund chargeback or write a letter</p> <p>12 to the attorney general. One of these recovery</p> <p>13 services was mentioned in the original subpoena.</p> <p>14 It's a popular -- I don't know. It seems like</p> <p>15 it's getting more and more popular. We're</p> <p>16 fighting it more and more often, and we have Joe</p> <p>17 writing letters, you know, threatening to sue,</p> <p>18 cease and desist type stuff, and for the most</p> <p>19 part it works, but there's still some out there</p> <p>20 that we're fighting with.</p> <p>21 Q. Now, that's representation of The Tax</p> <p>22 Club, the entity?</p> <p>23 A. Yes.</p> <p>24 Q. Do you have any attorneys on staff or</p> <p>25 legal professionals or paraprofessionals who work</p>	<p style="text-align: right;">Page 52</p> <p>1 M. Savage</p> <p>2 A. I shouldn't have crossed out Nicole</p> <p>3 Joseph-Pauline's position, because she still</p> <p>4 works with us and she still does that.</p> <p>5 Q. "That" being head of --</p> <p>6 A. Head of Client Services. She's Head of</p> <p>7 Client Services, this is what I should say, and</p> <p>8 now instead of Client Services being under Gary</p> <p>9 Milkwick, VP of Operations, we have a new Vice</p> <p>10 President of Client Services, Preston Clark.</p> <p>11 Q. So there's a new position added. Do you</p> <p>12 have an updated organizational chart?</p> <p>13 A. Absolutely.</p> <p>14 RQ MS. PROSPER: So we'll ask for that to</p> <p>15 be produced and updated, an organizational</p> <p>16 chart</p> <p>17 Q. But go ahead and let the record</p> <p>18 reflect that changes were made to page three</p> <p>19 where Client Services no longer exists and</p> <p>20 Preston Clark is now the -- I don't want to put</p> <p>21 words in your mouth.</p> <p>22 A. Is now the Director of Client Services,</p> <p>23 and he is a registered attorney, licensed</p> <p>24 attorney, but he does not practice law.</p> <p>25 Q. Go ahead.</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 53</p> <p>1 M. Savage</p> <p>2 A. He's a real smart guy, and so he's in</p> <p>3 charge of Client Services and he oversees the</p> <p>4 account executives. Again, the account</p> <p>5 executives are assigned to every client right</p> <p>6 after they join as their point of contact. We've</p> <p>7 been doing that for about a year now, a little</p> <p>8 over a year, and we found it very effective with</p> <p>9 our clients. It eliminates the complaint I'm</p> <p>10 confused, I don't know where to call, do I call</p> <p>11 the original sales rep, which is not as effective</p> <p>12 as calling an accountant.</p> <p>13 And another thing that we've done is</p> <p>14 we've -- this account executive will help bring</p> <p>15 the sales rep, you know, from that discussion</p> <p>16 when the client comes on board to the actual</p> <p>17 accountant. What we were doing, we were setting</p> <p>18 up an appointment the next day with an</p> <p>19 accounting. We call it the accounting assistance</p> <p>20 appointment, and so now we set that up five days</p> <p>21 later. The very next day is with the account</p> <p>22 executive with the sales rep on the phone and the</p> <p>23 accountant and it's more of a transition from</p> <p>24 instead of the sales, typically, you know, higher</p> <p>25 energy, more personality than the accountant,</p>	<p style="text-align: right;">Page 55</p> <p>1 M. Savage</p> <p>2 know, often. Each zone is in charge of training</p> <p>3 their -- of, you know, training their -- each</p> <p>4 member of the zone.</p> <p>5 Q. What do they train them to do?</p> <p>6 A. Tax preparation, general accounting, a</p> <p>7 lot of compliance. IRS has a lot of compliance</p> <p>8 as far as what tax preparer's, you know, the</p> <p>9 duties of a tax preparer to keep us from getting</p> <p>10 in, you know, in trouble with the IRS.</p> <p>11 Q. Who does the trainings?</p> <p>12 A. The CPAs, the zone managers or Gary, but</p> <p>13 we also do external trainings, seminars. IRS has</p> <p>14 seminars that we send out employees to, and</p> <p>15 there's refresher courses for the CPA exam or the</p> <p>16 enrolled agent exam.</p> <p>17 Q. Other than the small claims lawsuits</p> <p>18 against The Tax Club for what you mentioned,</p> <p>19 refund issues, has Tax Club and/or Manhattan</p> <p>20 Professional Group ever been in litigation?</p> <p>21 A. Yes.</p> <p>22 Q. Can you talk about that?</p> <p>23 A. We had a lawsuit with a former employee</p> <p>24 who said that, you know, we owed her some</p> <p>25 overtime. She was the director of HR, and that</p>
<p style="text-align: right;">Page 54</p> <p>1 M. Savage</p> <p>2 unfortunately. I'm an accountant. We're not as</p> <p>3 gregarious maybe as the sales. That is our sales</p> <p>4 department. So our clients were here,</p> <p>5 emotionally here, perhaps. The account executive</p> <p>6 is really working as a liaison with the client</p> <p>7 and our services. Our refunds have gone down.</p> <p>8 Our client complaints have gone down and we're</p> <p>9 constantly tweaking and adjusting to our process.</p> <p>10 You know, we do a lot of volume.</p> <p>11 Q. While we're on this operations and the</p> <p>12 various people that are on this page three of</p> <p>13 Exhibit-5, is there training for the various</p> <p>14 tiers of employees that you mentioned in your</p> <p>15 testimony?</p> <p>16 A. Absolutely.</p> <p>17 Q. Is it internal training or --</p> <p>18 A. Both.</p> <p>19 Q. The company trains them or do you send</p> <p>20 them out?</p> <p>21 A. We have the -- both, but primarily</p> <p>22 internal training. From a -- we're still talking</p> <p>23 about fulfillment. We do a lot of training for</p> <p>24 sales as well, a lot, but we do -- we have</p> <p>25 meetings, training meetings daily, weekly, you</p>	<p style="text-align: right;">Page 56</p> <p>1 M. Savage</p> <p>2 we owed her overtime pay, and our attorneys at</p> <p>3 the time, this is before Joe, advised us to</p> <p>4 settle, so there's that.</p> <p>5 We've had other clients that -- it's</p> <p>6 really not that much. He would know.</p> <p>7 Q. He's not testifying.</p> <p>8 A. Okay, all right, but there's not that</p> <p>9 much.</p> <p>10 Q. It's good to know that he would know.</p> <p>11 A. I would say there's maybe three cases,</p> <p>12 and we're currently in litigation with a company</p> <p>13 that -- I'm just trying to think if there's</p> <p>14 anything else. Currently in litigation with a</p> <p>15 company that had stolen some of our data, but</p> <p>16 we're the plaintiff on that.</p> <p>17 Q. What's the name of the company?</p> <p>18 A. Precision. I'm trying to think if</p> <p>19 there's anything else. Joe is probably saying --</p> <p>20 but I can't think of anything.</p> <p>21 Q. That's fine. Again, this is your</p> <p>22 memory, your testimony.</p> <p>23 A. Right.</p> <p>24 Q. So let's continue to go through sort</p> <p>25 of -- I'm not sure if we're done and I'm in no</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

Page 57

1 M. Savage
2 way rushing you. I want to continue to go
3 through sort of the various tiers of employees
4 and the various divisions of The Tax
5 Club/Manhattan Professional Group, and let's also
6 let the record reflect, if that's okay with you,
7 Mr. Savage, that when we say "The Tax Club," we
8 mean Manhattan Professional Group as well, unless
9 we specify otherwise, if that's all right with
10 you, since you say that they're owned by the same
11 person?
12 A. Absolutely.
13 So Preston Clark, he's in charge of
14 Client Services as a Vice President, and he
15 oversees the account executives.
16 And then Luke Kennedy, he is in charge
17 of operations for -- he's the Director of
18 Operations and his primary focus would be other
19 products that we sell. Other core products are
20 tax preparation, tax consulting, tax planning,
21 assistance in entity formations, bookkeeping, you
22 know, general accounting -- preparation of
23 financial statements, payroll services and
24 business plans, but we have other products.
25 We'll get into later, I'm assuming, and Luke

Page 58

1 M. Savage
2 Kennedy is in charge of the fulfillment of such
3 products, so he makes sure that -- in other
4 words, he makes sure that when a client buys
5 something they get it, and Preston makes sure
6 that when they get it -- so Luke makes sure that
7 when a client buys something they get exactly
8 what they bought. Preston makes sure that the
9 client is happy with what they bought, and from a
10 tax perspective, Joe makes sure that the IRS is
11 very comfortable with the way we prepare taxes,
12 and if I could just say one thing about that.
13 We're very conservative in our tax
14 preparation practices. We don't over -- we don't
15 expense startup costs. We amortize them over
16 five plus years. We don't prepare aggressive tax
17 returns. The IRS did perform an investigation on
18 us, and I could talk about that later, now,
19 whenever.
20 Q. Since you mention it, go ahead.
21 A. There is certain, you know, sections of
22 the IRS code where they explain what you can and
23 cannot do as a tax preparation company.
24 Primarily, you can't offer -- you can't promote
25 what they call tax shelters in the form of fake

Page 59

1 M. Savage
2 businesses, meaning set up an LLC and write-off
3 your personal expenses through the LLC or say
4 it's a business and it's not really a business.
5 A deduction has to be ordinary and necessary,
6 according to the IRS, and it has to be -- you
7 know, there's a nine-step process the IRS uses
8 when they determine whether a business is
9 actually a business or if it's a hobby, and we
10 don't have any ownership in any companies that
11 provide opportunities. We don't own -- we don't
12 promote business opportunities. When the client
13 comes to us, they already have a business. They
14 have a business ID. They're an entrepreneur or
15 they own properties or they own a web site that
16 they sell things on or whatever. They're an
17 actual business when we get them, and when the
18 IRS found that out, that gave them a lot of
19 comfort that we weren't promoting businesses just
20 for tax purposes. They gave us a letter and
21 discontinued their investigation. They were
22 comfortable with that.
23 Q. What year is that?
24 A. 2007. It's either '06, '07, '08,
25 somewhere in the middle. They essentially said

Page 60

1 M. Savage
2 that they were interested in how we grew so fast.
3 We went from zero to 100 miles an hour in two
4 years, and they thought that there might be
5 something up. It was -- it was comforting to
6 know that they approved of our processes and
7 our --
8 Q. For tax preparation?
9 A. For tax preparation. And, you know, we
10 signed all the tax returns. We're very
11 compliant, and, again, we amortize our startup
12 costs and we hope the businesses are going to be
13 thriving businesses.
14 If you have any questions, I know there
15 is a lot more there, so --
16 Q. Go ahead.
17 A. Another thing that Luke is in charge of,
18 this is very important, we call it Compliance.
19 It's -- we call it Sales Compliance internally,
20 but essentially what it is is sales verification.
21 Every single sale that is made, and you probably
22 saw this as you were going through our stuff,
23 every single sale that's made it goes through a
24 sales verification process, meaning after the
25 client takes out their credit card, we're talking

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 61</p> <p>1 M. Savage</p> <p>2 about a telephone call, takes out their credit</p> <p>3 card, gives us their credit card number and it</p> <p>4 gets transferred to our verification department</p> <p>5 and then it goes over the credit card</p> <p>6 information, the billing information with the</p> <p>7 client, verifies exactly what they're getting,</p> <p>8 tells them again what they're getting, verifies</p> <p>9 again billing address, credit card information,</p> <p>10 CVV number, and some more stuff. I mean,</p> <p>11 there's -- you know, you guys have seen it, what</p> <p>12 we call compliance scripts. It's a sales</p> <p>13 verification script, and they go through several</p> <p>14 things at that stage, and then that file --</p> <p>15 everything is recorded. All of our phone calls</p> <p>16 are recorded, but the verification record then</p> <p>17 gets attached in our database, our CRM, Customer</p> <p>18 Relations Management system, whatever. Once that</p> <p>19 MP3 is attached, then the sale is eligible to be</p> <p>20 batched at night, to be processed. Without that</p> <p>21 verification the sale won't go through.</p> <p>22 Q. Is that an internal mechanism that you</p> <p>23 have or is that put on -- is that a requirement</p> <p>24 put on you by an outside agency?</p> <p>25 A. Internal. Internal. And so Luke is in</p>	<p style="text-align: right;">Page 63</p> <p>1 M. Savage</p> <p>2 are times where it's hard to get a hold of a</p> <p>3 client, so we get that process immediately</p> <p>4 started. That is one area of internal</p> <p>5 regulation.</p> <p>6 We also have a monitoring department</p> <p>7 which is very important to mention. It's out of</p> <p>8 Utah so it's a completely separate division.</p> <p>9 Approximately six to 10 monitoring reps monitor</p> <p>10 every single sales rep at least two times a week.</p> <p>11 Q. When you say "monitor," can you get into</p> <p>12 that --</p> <p>13 A. They listen to the entire call.</p> <p>14 Q. They listen to one call? How do they</p> <p>15 pick the call to listen to?</p> <p>16 A. What they'll do is they'll pick at</p> <p>17 random two sales calls, longer calls, that</p> <p>18 resulted in sales. From a sales rep's -- from --</p> <p>19 two calls for each sales rep every week. Then we</p> <p>20 have an extensive list of do's and don'ts that</p> <p>21 our sales reps cannot say. They would be</p> <p>22 disciplined or fired if they violate our policies</p> <p>23 that they've signed, and they get weekly</p> <p>24 trainings on that, and every week the monitoring</p> <p>25 department puts on a webinar, internal webinar</p>
<p style="text-align: right;">Page 62</p> <p>1 M. Savage</p> <p>2 charge. It's a separate office. It's not</p> <p>3 commingled with the sales guy, with the sales</p> <p>4 reps at all, and Luke is in charge of that. He</p> <p>5 oversees the operations of that.</p> <p>6 Q. So I don't want to put words in your</p> <p>7 mouth, but a separate group of people other than</p> <p>8 sales folks --</p> <p>9 A. Oh, yes.</p> <p>10 Q. What is word you used?</p> <p>11 A. Verifying.</p> <p>12 Q. -- are verifying, thank you, the sales?</p> <p>13 A. Yes, with the client, reiterating, and</p> <p>14 in some cases even starting with the fulfillment</p> <p>15 process if the product is applicable to -- like</p> <p>16 if it's an entity registration, they might say</p> <p>17 have you thought about different names for your</p> <p>18 company, and they start that process immediately.</p> <p>19 Q. So they are not just compliance folks,</p> <p>20 do they wear other hats?</p> <p>21 A. They're only compliance, only</p> <p>22 verification. They're not customer service.</p> <p>23 They're not fulfillment, but they will start the</p> <p>24 process so the client is engaged. You know, in</p> <p>25 telesales you often -- not oftentimes, but there</p>	<p style="text-align: right;">Page 64</p> <p>1 M. Savage</p> <p>2 training for all of our sales reps, and in that</p> <p>3 webinar they discuss issues that they have</p> <p>4 whether they're coming across or, you know, if a</p> <p>5 sales rep is veering off the, you know, the</p> <p>6 path, and what I mean by that is, you know, if a</p> <p>7 particular sales rep is getting too pushy, not</p> <p>8 being as -- you know, monitoring their sales</p> <p>9 behavior.</p> <p>10 Q. These people in Utah who are monitoring,</p> <p>11 what is their training?</p> <p>12 A. They all have training in either the</p> <p>13 telemarketing world, telemarketing training,</p> <p>14 telemarketing experience. The guy that is in</p> <p>15 charge of it, Jason Baum, B-A-U-M, he has 20 plus</p> <p>16 years of telemarketing compliance. He's very</p> <p>17 familiar with telemarketing law, as is Joe, and</p> <p>18 him and -- Joe and Jason, they meet frequently.</p> <p>19 Joe --</p> <p>20 Q. But Jason is in Utah?</p> <p>21 A. Yes. They meet and -- you know,</p> <p>22 frequently in person and also they have weekly</p> <p>23 phone meetings, conference calls to discuss</p> <p>24 legalities of telemarketing laws to make sure</p> <p>25 that we are complying. Joe, if I could brag, he</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 65</p> <p>1 M. Savage</p> <p>2 wrote --</p> <p>3 Q. Let the record reflect that "Joe" means</p> <p>4 counsel, Joe Sanscrainte, who is seated with us.</p> <p>5 A. He wrote all the self-governance laws</p> <p>6 for the ATA, the American Teleservices of</p> <p>7 America, the ATA, and so he's also a specialist</p> <p>8 in telemarketing law. Okay? So the monitoring</p> <p>9 department, they also review -- not only do they</p> <p>10 review, when I say "review," monitor the entire</p> <p>11 phone call of the sales reps twice a week, they</p> <p>12 also review every phone call that -- in which a</p> <p>13 client calls to cancel. We have clients call and</p> <p>14 say "I didn't buy that" or "this isn't what I</p> <p>15 thought it was." We review every single one of</p> <p>16 those calls, so that's -- again, that is an</p> <p>17 internal regulation. That's not an external</p> <p>18 regulation. We have approximately -- you know,</p> <p>19 close to 100 reps, sales reps, and, you know, we</p> <p>20 do -- I think we do a fantastic job of keeping</p> <p>21 our hands on exactly what they're saying, how</p> <p>22 they're presenting their preparation and</p> <p>23 training.</p> <p>24 Q. We're moving into the sales, and that's</p> <p>25 okay. I just want to be sure that we're -- we've</p>	<p style="text-align: right;">Page 67</p> <p>1 M. Savage</p> <p>2 based on the tax perspectives of different</p> <p>3 entities, but we stay -- the accountants will</p> <p>4 give tax advice, yes, but not legal advice.</p> <p>5 Q. Now I think we're mixing two things.</p> <p>6 I'll jump around my outline as well. The first</p> <p>7 person from The Tax Club to speak with a</p> <p>8 potential client is who?</p> <p>9 A. Either a sales rep or an appointment</p> <p>10 setter.</p> <p>11 Q. What's an "appointment setter"?</p> <p>12 A. Appointment setter will call people up</p> <p>13 and say "Are you interested in hearing a tax</p> <p>14 presentation?"</p> <p>15 Q. How are the potential clients chosen?</p> <p>16 A. We have people who come to our --</p> <p>17 organically who come to our web site who signed</p> <p>18 up for a consultation. We have consultation</p> <p>19 sign-ups on different web sites of different</p> <p>20 companies that we don't own or, you know, have</p> <p>21 any ownership interest in, meaning put in your</p> <p>22 information here for a tax, you know, whatever,</p> <p>23 presentation. We get what we call referrals. We</p> <p>24 get referrals from certain partners, referral</p> <p>25 partners we call them. No shared ownership but</p>
<p style="text-align: right;">Page 66</p> <p>1 M. Savage</p> <p>2 completed sort of operations and want to move</p> <p>3 into the sales, and please feel free to go out of</p> <p>4 order in the pages. Since we've been talking</p> <p>5 extensively about sales or begun to, maybe we</p> <p>6 want to move to that section and talk a little</p> <p>7 bit about that or we could continue as we were</p> <p>8 page by page.</p> <p>9 A. Okay, we'll continue with page by page</p> <p>10 because I feel like I'm going to leave some stuff</p> <p>11 out.</p> <p>12 Q. Are any Tax Club employees trained to</p> <p>13 give any kind of legal advice?</p> <p>14 A. No.</p> <p>15 Q. Are they trained not to give legal</p> <p>16 advice?</p> <p>17 A. Yes.</p> <p>18 Q. Can you elaborate on that a little bit?</p> <p>19 A. Yes. Especially the sales reps, they</p> <p>20 aren't to give any legal advice at all. That's a</p> <p>21 fine on our fine sheet, as well as tax advice.</p> <p>22 They are to stay away from tax advice, the actual</p> <p>23 sales reps, but what we do is -- this is</p> <p>24 specifically having to do with entity formations,</p> <p>25 we give advice, the accountants will give advice</p>	<p style="text-align: right;">Page 68</p> <p>1 M. Savage</p> <p>2 they will give us names of our -- of clients who</p> <p>3 might be interested in some tax help, some entity</p> <p>4 formation who are brand new business owners. Our</p> <p>5 niche is really a brand new business owner. We</p> <p>6 feel if we set them up the right way, it's not so</p> <p>7 expensive, it's not so difficult to maintain</p> <p>8 their books, prepare their taxes if they're</p> <p>9 set-up the right way from the very beginning, so</p> <p>10 I think part of the secret to our success is</p> <p>11 we've really stayed within our niche of the new</p> <p>12 business owner. We do some e-mail marketing but</p> <p>13 primarily over the phone.</p> <p>14 Q. How do you choose which companies you're</p> <p>15 going to obtain potential customers from?</p> <p>16 A. We'll take -- we'll -- you know, the</p> <p>17 selection process is more, you know, we'll take</p> <p>18 any entrepreneurial list or any brand new</p> <p>19 business owner list that we can. Some have</p> <p>20 better -- you know, some we have more success</p> <p>21 with than others. Some are more pertinent than</p> <p>22 others, you know, more effective.</p> <p>23 Q. Are you familiar with the term "lead</p> <p>24 source"?</p> <p>25 A. Yes.</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 69</p> <p>1 M. Savage</p> <p>2 Q. Can you describe what a "lead source"</p> <p>3 is?</p> <p>4 A. Lead source/referral partner I've used</p> <p>5 interchangeably. A lead source would be someone</p> <p>6 who sends over files of clients, either they've</p> <p>7 referred them to us saying hey, you have to --</p> <p>8 you know, you should listen to The Tax Club, they</p> <p>9 have some services that you could benefit from.</p> <p>10 That would be a referral. Lead source would be</p> <p>11 someone who just sends over leads that we call</p> <p>12 and telemarket our services to, whether it be a</p> <p>13 list of small business owners. You know, it</p> <p>14 really varies.</p> <p>15 Q. Are there any types of payment</p> <p>16 arrangements between The Tax Club and these lead</p> <p>17 source or referral partners?</p> <p>18 A. Yes.</p> <p>19 Q. Can you describe those payment</p> <p>20 arrangements?</p> <p>21 A. We do typically -- every lead source,</p> <p>22 every referral partner has a different contract,</p> <p>23 different arrangement, but typically we will do a</p> <p>24 revenue share on the first products that we sell</p> <p>25 the clients, which is pretty typical in the</p>	<p style="text-align: right;">Page 71</p> <p>1 M. Savage</p> <p>2 Club information to these potential clients</p> <p>3 before you contact them?</p> <p>4 A. I'm trying to think if there's an</p> <p>5 instance where there's an e-mail or -- I can't</p> <p>6 think of anything.</p> <p>7 Q. Do lead sources --</p> <p>8 A. I'm sorry, there is a situation where</p> <p>9 sometimes they will say -- you know, they'll say,</p> <p>10 hey, The Tax Club is going to call you about tax</p> <p>11 services, incorporation services, business plans,</p> <p>12 whatever, you know, the arrangement is, don't</p> <p>13 worry, you know, they're not affiliated with us</p> <p>14 but we know who they are and their services are</p> <p>15 good. That happens, I guess, in some cases, but</p> <p>16 it's not like, you know, we make them say that</p> <p>17 or -- they'll just say that and -- so they don't</p> <p>18 get -- so their clients, you know, don't say who</p> <p>19 is calling me or who did you sell my name to or</p> <p>20 things like that.</p> <p>21 Q. Do you know, if you know, do the lead</p> <p>22 sources tell potential customers that, you sort</p> <p>23 of answered, that The Tax Club will be calling</p> <p>24 them, is there --</p> <p>25 A. Some do. Some don't.</p>
<p style="text-align: right;">Page 70</p> <p>1 M. Savage</p> <p>2 accounting world. You know, oftentimes you'll</p> <p>3 get a lead where -- we'll do up to 30 percent and</p> <p>4 sometimes 35 percent, which we'll share in that</p> <p>5 initial revenue. I know that, you know, it's not</p> <p>6 uncommon for CPA firms to pay 100 percent of the</p> <p>7 first annual revenue for a client, so -- but we</p> <p>8 rarely go over 30 percent.</p> <p>9 Q. How do the names come to you? Are you</p> <p>10 buying lists? Are you buying -- I would like you</p> <p>11 to describe, please, how does that come about,</p> <p>12 you know, once you've identified a referral</p> <p>13 partner or lead source.</p> <p>14 A. Well, two different ways. Again, every</p> <p>15 referral partner and lead source is different.</p> <p>16 Some will come over in a rep share model where we</p> <p>17 don't buy the list, we will share in the revenue</p> <p>18 of what we sell them. Some we'll buy, we'll say</p> <p>19 okay, we'll give you \$10, you know, a lead.</p> <p>20 MS. PROSPER: Would you like some water.</p> <p>21 THE WITNESS: I'm fine.</p> <p>22 A. So you either buy a lead or share in the</p> <p>23 revenue.</p> <p>24 Q. Do any of your lead sources or referral</p> <p>25 partners as you describe them disseminate any Tax</p>	<p style="text-align: right;">Page 72</p> <p>1 M. Savage</p> <p>2 Q. Do you give them any materials? Do</p> <p>3 you -- I don't want to put words in your mouth</p> <p>4 again. Do lead sources, for example, might they</p> <p>5 have a video or -- I know some of that came in</p> <p>6 the production. Before one of your sales reps</p> <p>7 calls one of these potential clients, what have</p> <p>8 they heard of The Tax Club and where did they get</p> <p>9 that information?</p> <p>10 A. I would say in some cases it's probably</p> <p>11 pretty half and half. I would say half have</p> <p>12 never heard of us, and I would say the other half</p> <p>13 maybe we'll send out a warm-up e-mail. We'll</p> <p>14 send out an e-mail saying who we are, that we're</p> <p>15 going to be calling. That improves our</p> <p>16 appointment setting ratios. People are more</p> <p>17 familiar with us. You know, we'll -- again, a</p> <p>18 warm-up e-mail. Some of our clients, I am</p> <p>19 familiar that we have a video and it's, you know,</p> <p>20 saying who we are, what we do.</p> <p>21 Q. Where do they get the video?</p> <p>22 A. I've never seen any videos. I just -- I</p> <p>23 know that there's been a couple that have been</p> <p>24 made and in case you've seen them or whatnot, I</p> <p>25 know what you're referring to, it's not that</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 73</p> <p>1 M. Savage</p> <p>2 prominent, and more likely than not it was</p> <p>3 designed to, again, answer the question of who</p> <p>4 are these guys, did you sell my name to these</p> <p>5 people, why are you doing that. More for them,</p> <p>6 not for us.</p> <p>7 Q. More for them who?</p> <p>8 A. More for the lead providers.</p> <p>9 Q. Maybe I didn't -- maybe I asked it</p> <p>10 already, and if I did, excuse me.</p> <p>11 Are you providing the lead sources with</p> <p>12 information about The Tax Club to pass along to</p> <p>13 these potential folks?</p> <p>14 A. Not that I know of.</p> <p>15 Q. Do you know someone who could -- is it</p> <p>16 more of a marketing thing or is it more -- would</p> <p>17 someone in the marketing department know better?</p> <p>18 A. Yes.</p> <p>19 Q. Who might know?</p> <p>20 A. Brendan Pack our Sales Manager. Again,</p> <p>21 it would be an e-mail that -- warm-up e-mail.</p> <p>22 Q. You're not sure yourself?</p> <p>23 A. No.</p> <p>24 Q. Who may have seen these videos and when?</p> <p>25 A. He would. He would know, Brendan would</p>	<p style="text-align: right;">Page 75</p> <p>1 M. Savage</p> <p>2 Q. Yes.</p> <p>3 A. No, none of the major social media.</p> <p>4 Q. So you don't advertise on social media</p> <p>5 sites?</p> <p>6 A. Oh, I don't -- we don't, but maybe some</p> <p>7 referral partners might advertise, but I wouldn't</p> <p>8 say that Facebook itself sends us any -- you</p> <p>9 know, refers people to us.</p> <p>10 Q. So we were reviewing lead sources, the</p> <p>11 financial arrangements between them. How do you</p> <p>12 rate employee performance?</p> <p>13 A. We do an annual review modeled a lot</p> <p>14 after what we did at PricewaterhouseCoopers. I</p> <p>15 brought over a bunch of people that I worked with</p> <p>16 at Pricewaterhouse as our company grew. I</p> <p>17 recruited a bunch of people in the division that</p> <p>18 I worked in, which was the fraud investigation</p> <p>19 department, and so we applied the same type of,</p> <p>20 you know, like the rating systems, promotions,</p> <p>21 bonuses based on reviews.</p> <p>22 Q. Are there other ways to get -- do you</p> <p>23 have some people who are commissioned, who work</p> <p>24 only on commission?</p> <p>25 A. No one works strictly on commission, but</p>
<p style="text-align: right;">Page 74</p> <p>1 M. Savage</p> <p>2 know.</p> <p>3 Q. Okay, great.</p> <p>4 Let's continue through -- and questions</p> <p>5 will come up and we'll flip back and forth.</p> <p>6 MR. SANSCRAINTE: I'm sorry, could I get</p> <p>7 a cup of water?</p> <p>8 MS. PROSPER: In fact, why don't we take</p> <p>9 a five-minute break. It's now 11:30, so</p> <p>10 let's make take five or 10 minutes.</p> <p>11 MR. SANSCRAINTE: Sure.</p> <p>12 (A recess was taken.)</p> <p>13 Q. Okay, so we were going through -- I</p> <p>14 can't remember the last question but --</p> <p>15 A. We were talking about sales</p> <p>16 verification, monitoring department, some of the</p> <p>17 training we do for our sales rep, and then we</p> <p>18 decided, okay, should we get into sales or --</p> <p>19 Q. We were talking about referral partners,</p> <p>20 lead sources.</p> <p>21 Are any of your lead sources any social</p> <p>22 media sites, do you know, or if you don't know,</p> <p>23 who would know?</p> <p>24 A. I would say no. Social media sites like</p> <p>25 Facebook?</p>	<p style="text-align: right;">Page 76</p> <p>1 M. Savage</p> <p>2 the sales reps are definitely -- I mean, both of</p> <p>3 their income -- I would say the bulk, the better,</p> <p>4 the more effective sales reps would be commission</p> <p>5 based.</p> <p>6 Q. So just briefly describe as we talk</p> <p>7 about the different employees on the</p> <p>8 organizational chart how folks are paid and if</p> <p>9 there are incentives like commission or even</p> <p>10 disincentives like penalties for certain</p> <p>11 behaviors. You talked about reviews. What are</p> <p>12 those reviews based on?</p> <p>13 A. Strictly performance. An easy way to</p> <p>14 look at it is to say okay, our office is divided</p> <p>15 right down the middle. The south side of the --</p> <p>16 of our floor would be our sales department and</p> <p>17 the north side would be our fulfillment</p> <p>18 department. Fulfillment department is</p> <p>19 compensated strictly on salaries. We've been</p> <p>20 hiring as we've been growing. We pay, I think,</p> <p>21 very well, very competitively. Based on their</p> <p>22 reviews will determine whether or not they get a</p> <p>23 bonus or a raise. That's how they're</p> <p>24 incentivized, on how well they prepare tax</p> <p>25 returns. Their direct supervisor will evaluate</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 77</p> <p>1 M. Savage</p> <p>2 them.</p> <p>3 Sales side, they are not only</p> <p>4 compensated based on their sales performance, you</p> <p>5 know, their typical sales job, but they're also</p> <p>6 de incentivized if clients refund or cancel or</p> <p>7 have -- we'll take commissions away if the client</p> <p>8 is at all mislead. If they don't understand what</p> <p>9 they bought, you know, when we discover by</p> <p>10 monitoring the call that the call wasn't that</p> <p>11 effective of a sales call, they didn't follow the</p> <p>12 script, we will take commission away and we</p> <p>13 withhold 10 percent of all comissionable sales to</p> <p>14 offset refunds. We call that retention. And</p> <p>15 every quarter we will give sales reps, you know,</p> <p>16 whatever they have remaining in that 10 percent</p> <p>17 pool of their -- the people that they brought --</p> <p>18 that they've sold that haven't cancelled or</p> <p>19 refunded.</p> <p>20 Q. So those are the only two sort of</p> <p>21 structures that you have for paying employees?</p> <p>22 A. Yes.</p> <p>23 Q. I know we're jumping back and forth, but</p> <p>24 I'm not sure what's next on the operations chart.</p> <p>25 A. We pretty much went through it.</p>	<p style="text-align: right;">Page 79</p> <p>1 M. Savage</p> <p>2 earlier, that if a client calls to request a</p> <p>3 refund those calls are also monitored --</p> <p>4 A. Absolutely.</p> <p>5 Q. -- and reviewed?</p> <p>6 A. Every complaint we get, you know, if we</p> <p>7 get something, whether it be from the BBB or AG's</p> <p>8 office, we will review all those calls and try</p> <p>9 and figure out, you know, get to the root of the</p> <p>10 dissatisfaction and change our processes</p> <p>11 accordingly and our controls. I mean, my</p> <p>12 previous, you know, employment was all based on</p> <p>13 internal controls, evaluating internal controls.</p> <p>14 I'm very comfortable, I'm good at implementing</p> <p>15 internal controls. I'm good at monitoring them</p> <p>16 and placing new ones in to fix a problem.</p> <p>17 Q. Since we were just talking about</p> <p>18 salaries, you described earlier like a penalty</p> <p>19 structure?</p> <p>20 A. Yes.</p> <p>21 MS. PROSPER: These, again, were culled</p> <p>22 from the production that you made to us.</p> <p>23 Showing you an 11-page -- 11 pages which came</p> <p>24 from the HR training, it was under additional</p> <p>25 materials that I'll just call infractions and</p>
<p style="text-align: right;">Page 78</p> <p>1 M. Savage</p> <p>2 Q. Are these next pages, would you say,</p> <p>3 breakdowns of each?</p> <p>4 A. Well, it looks as though we're getting</p> <p>5 into product specific. Luke is Director of</p> <p>6 Operations. Sharif is in charge of our sales</p> <p>7 verification department/compliance department.</p> <p>8 Q. He's located where?</p> <p>9 A. New York. This is all New York.</p> <p>10 Q. Because you mentioned a group of people</p> <p>11 in Utah --</p> <p>12 A. Yes.</p> <p>13 Q. -- who review the calls.</p> <p>14 A. Monitor the calls. So Sharif is in</p> <p>15 charge of verifying the sale, saying hey,</p> <p>16 Mrs. Smith, this is exactly what you bought, this</p> <p>17 is exactly what you're going to get, this is</p> <p>18 your -- what's your credit card information,</p> <p>19 what's your billing address, blah, blah, and then</p> <p>20 in Utah Jason Baum is in charge of the monitoring</p> <p>21 department which monitors all of our sales reps</p> <p>22 every week to make sure that they're in</p> <p>23 compliance.</p> <p>24 Q. And then did you mention -- I'm not sure</p> <p>25 again if this is in my head or you mentioned it</p>	<p style="text-align: right;">Page 80</p> <p>1 M. Savage</p> <p>2 lists. You could call it something else, but</p> <p>3 just for identification can we mark it,</p> <p>4 please, as 6, AG Number 6?</p> <p>5 (Whereupon, AG Exhibit-6, 11-page</p> <p>6 document, was marked for identification, as</p> <p>7 of this date by the Reporter.)</p> <p>8 Q. Mr. Savage, I'm handing you what's been</p> <p>9 marked as AG 6.</p> <p>10 Are these documents things you</p> <p>11 recognize?</p> <p>12 A. Yes.</p> <p>13 Q. What do you recognize them to be?</p> <p>14 A. Our internal Do Not Call Policy, which</p> <p>15 essentially is if a client says okay, don't call</p> <p>16 me, you know, anymore, we put him on our do not</p> <p>17 call list and -- or if they're, you know --</p> <p>18 that's one way they'll be put on the do not call</p> <p>19 list, do not -- internal do not call list. They</p> <p>20 opt into it. They're given that chance via</p> <p>21 e-mail, and also if they're upset, they call in</p> <p>22 and they had a bad experience, we'll put them on</p> <p>23 our do not call list so it doesn't resurface, so</p> <p>24 okay, they either opt in or we place them on the</p> <p>25 do not call list.</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 81</p> <p>1 M. Savage</p> <p>2 Q. How do they opt in again? You send them</p> <p>3 an e-mail that says --</p> <p>4 A. Yes, if you don't want any sales calls,</p> <p>5 you don't have to have sales calls.</p> <p>6 Q. When do they get that e-mail?</p> <p>7 A. When they join.</p> <p>8 Q. When they join --</p> <p>9 A. When they join we send them a bunch of</p> <p>10 stuff electronically primarily where we send an</p> <p>11 agreement, you know, listing out all -- exactly</p> <p>12 what they bought and receipt and cancellation</p> <p>13 policy on it and opt out e-mail. You know, I</p> <p>14 don't know if we still do that, actually. I know</p> <p>15 we did it for quite some time.</p> <p>16 Q. Do you know who would know?</p> <p>17 A. Brendan Pack, but, anyway, so back to</p> <p>18 the do not call list. Either they instruct us to</p> <p>19 be placed on the do not call list or we will</p> <p>20 manually put them on if there -- if they've had</p> <p>21 an issue, and, again, the different lead</p> <p>22 providers have different arrangements. Some lead</p> <p>23 providers said, you know, you sell tax services</p> <p>24 only and because they might sell other stuff,</p> <p>25 maybe a competing product or whatnot, and so</p>	<p style="text-align: right;">Page 83</p> <p>1 M. Savage</p> <p>2 let's say they go to lunch with an accountant,</p> <p>3 okay, you know, I could get that -- that's never</p> <p>4 happened, to my knowledge, that would be the only</p> <p>5 way they could, and then they would get fined for</p> <p>6 calling a person on the list, or if it was a</p> <p>7 client that they had their previous number,</p> <p>8 again, I shouldn't assume how they would call</p> <p>9 them, but it is an infraction.</p> <p>10 Q. How do the infractions work? You get --</p> <p>11 in general, how do the infractions work?</p> <p>12 A. From the monitoring department, Jason</p> <p>13 Baum issues them.</p> <p>14 Q. Before we do that, can you review all</p> <p>15 the sheets so we could get it into evidence as</p> <p>16 you talk about them, please, and we'll get back</p> <p>17 to this but --</p> <p>18 A. Do Not Call Policy, the fine list, this</p> <p>19 is just another copy of this, yeah, another fine</p> <p>20 list. This is the one I'm familiar with, but</p> <p>21 it's exactly the same, infraction policy for</p> <p>22 monitoring. Okay, this would be our policy in</p> <p>23 which we would issue the infraction, dress code,</p> <p>24 sales training, infraction policy for employees,</p> <p>25 which I've never heard of anyone but a sales rep</p>
<p style="text-align: right;">Page 82</p> <p>1 M. Savage</p> <p>2 there's a -- you know, let's say if it was tax</p> <p>3 services only, I'm thinking of one lead provider</p> <p>4 in particular, then we automatically place them</p> <p>5 on the do not call list, so I guess that would be</p> <p>6 the third way, if it was a contractual with the</p> <p>7 lead provider.</p> <p>8 Q. So you're saying a lead provider could</p> <p>9 refer a customer to you just for tax purposes?</p> <p>10 A. Ahuh.</p> <p>11 Q. And you would be sort of barred</p> <p>12 contractually from offering them anything besides</p> <p>13 tax services?</p> <p>14 A. One control is we place them on the do</p> <p>15 not call list. I mean, I'm just thinking of an</p> <p>16 example. It's a small percentage.</p> <p>17 Q. I understand. Go ahead. So there's a</p> <p>18 do not call list, so that's -- I'm not sure that</p> <p>19 that's a penalty structure, although it was in</p> <p>20 that same --</p> <p>21 A. It definitely is a penalty structure.</p> <p>22 Q. If someone calls?</p> <p>23 A. Oh, yes. I don't know how they would</p> <p>24 because the phone number will not show up in the</p> <p>25 system that the sales rep sees, our database, but</p>	<p style="text-align: right;">Page 84</p> <p>1 M. Savage</p> <p>2 being fined, and then some training information.</p> <p>3 MS. PROSPER: So I would like to now</p> <p>4 move what's been marked as AG 6 into</p> <p>5 evidence, please, and then we'll be</p> <p>6 discussing it.</p> <p>7 (Whereupon, AG Exhibit-6, as previously</p> <p>8 described, was marked in evidence, as of this</p> <p>9 date by the Reporter.)</p> <p>10 Q. Can you explain briefly the process for</p> <p>11 issuing an infraction, and if there's any</p> <p>12 financial penalty, how that -- you a little bit</p> <p>13 touched on it with the 10 percent withholding,</p> <p>14 but how that is paid by the employee, et cetera?</p> <p>15 A. It's unrelated to the 10 percent</p> <p>16 retention. 10 percent retention focuses strictly</p> <p>17 on refunds. The fine sheet, our infraction</p> <p>18 policy is taken right out of paycheck. If it's a</p> <p>19 \$500 fine, we reduce their paycheck by \$500.</p> <p>20 Q. Is there a process or procedure by which</p> <p>21 one is informed that there's an infraction?</p> <p>22 A. Yes.</p> <p>23 Q. Can you briefly explain that?</p> <p>24 A. Sure. Monitoring department, Jason</p> <p>25 Baum, will contact the particular team leader,</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 85</p> <p>1 M. Savage</p> <p>2 the particular team manager and tell them -- on a</p> <p>3 weekly basis, actually on a daily basis who gets</p> <p>4 fined. The fine will be assessed on a weekly</p> <p>5 basis but they're informed on a daily basis.</p> <p>6 Typically one to two fines a week will actually</p> <p>7 make it passed the -- okay, make it to that -- to</p> <p>8 the week, meaning they're informed on a daily</p> <p>9 basis, they're given an opportunity to explain</p> <p>10 themselves or to discuss it. I would say three</p> <p>11 out of 10 times the fine is reversed based on,</p> <p>12 you know, more of an innocent until proven guilty</p> <p>13 type model, and then on a weekly basis then</p> <p>14 they'll, you know, they'll be assessed the fine</p> <p>15 that they can't -- you know, if someone gets</p> <p>16 fined twice for the same thing, then they get</p> <p>17 fired. It's not that common. I mean, we don't</p> <p>18 have any repeat offenders. We would get rid of</p> <p>19 them.</p> <p>20 Q. What would be sort of the most common</p> <p>21 way that an infraction comes to light?</p> <p>22 A. It always comes through our monitoring</p> <p>23 department.</p> <p>24 Q. Always?</p> <p>25 A. Always. Sometimes there might be a</p>	<p style="text-align: right;">Page 87</p> <p>1 M. Savage</p> <p>2 Q. Internal due process?</p> <p>3 A. Internal.</p> <p>4 Q. Just to finish up with the employees and</p> <p>5 payment, by what means are your employees paid?</p> <p>6 A. Via direct deposit, check.</p> <p>7 Q. Are they paid on the same cycle?</p> <p>8 A. Every two weeks, yes, every other</p> <p>9 Friday.</p> <p>10 Q. Do you use a payroll company to do that?</p> <p>11 A. ADP.</p> <p>12 Q. Do you earn a salary from The Tax Club?</p> <p>13 A. Yes.</p> <p>14 Q. Is it a fixed salary or is it -- does it</p> <p>15 fluctuate?</p> <p>16 A. It fluctuates based on revenue. I have</p> <p>17 a salary plus a small commission.</p> <p>18 Q. Are you also paid biweekly?</p> <p>19 A. Yes.</p> <p>20 Q. What about the small commission?</p> <p>21 A. Yes, all in one check.</p> <p>22 Q. Right, but it comes biweekly?</p> <p>23 A. Yes.</p> <p>24 Q. Based on --</p> <p>25 A. Sales performance or company</p>
<p style="text-align: right;">Page 86</p> <p>1 M. Savage</p> <p>2 cancelled -- a cancellation request. We then</p> <p>3 monitor the call and then monitor decides whether</p> <p>4 or not to fine that actual sales rep.</p> <p>5 Q. Then there's a back and forth process</p> <p>6 where they get to sort of defend themselves?</p> <p>7 A. Yes.</p> <p>8 Q. And you said something about the end of</p> <p>9 the week which I didn't understand, that when the</p> <p>10 money is taken from paycheck or how does that --</p> <p>11 A. We get paid every two weeks, but what I</p> <p>12 meant was -- I was just backing up the number one</p> <p>13 to two fines actually go through a week.</p> <p>14 Q. I see.</p> <p>15 A. A week, every week we have one or two</p> <p>16 fines.</p> <p>17 Q. Per --</p> <p>18 A. That go passed --</p> <p>19 Q. Per zone?</p> <p>20 A. No, no, per company.</p> <p>21 Q. Just in general?</p> <p>22 A. Yes, that go passed the arbitration or I</p> <p>23 don't know --</p> <p>24 MR. MITCHELL: The due process?</p> <p>25 A. -- the due process.</p>	<p style="text-align: right;">Page 88</p> <p>1 M. Savage</p> <p>2 performance.</p> <p>3 Q. For the two weeks before or --</p> <p>4 A. Yes.</p> <p>5 Q. And you are not a partner?</p> <p>6 A. Not an owner.</p> <p>7 Q. Not an owner?</p> <p>8 A. Ahuh.</p> <p>9 Q. You are a partner, is that what you're</p> <p>10 saying?</p> <p>11 A. No, but the answer to your question, I</p> <p>12 don't own any shares but I'm an officer.</p> <p>13 Q. Tell me your title again.</p> <p>14 A. President.</p> <p>15 Q. President, exactly, of course. How much</p> <p>16 are you paid?</p> <p>17 A. \$104,000 a year is my salary and --</p> <p>18 Q. Commission?</p> <p>19 A. And my commission is two and a</p> <p>20 half percent of revenue after refunds and</p> <p>21 cancellations and --</p> <p>22 Q. We'll get into that a little bit later.</p> <p>23 Let's go and finish with the</p> <p>24 organizational chart so we don't forget about it</p> <p>25 or leave anything off.</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 89</p> <p>1 M. Savage</p> <p>2 A. Sure.</p> <p>3 Q. Now, I think earlier you testified that</p> <p>4 the pages following -- as the pages go on they</p> <p>5 sort of break things down a little bit further.</p> <p>6 Why don't we go through and, again, if you feel</p> <p>7 the need to elaborate, please do, because the</p> <p>8 name Luke Kennedy is from another page, let's</p> <p>9 just sort of go through -- so Luke Kennedy is</p> <p>10 Director of Operations and under him --</p> <p>11 A. Compliance/Fulfillment Verification,</p> <p>12 business plans, My Essential Plans is the name of</p> <p>13 our brand. Sebastian who works with -- works</p> <p>14 with the business plans and the -- in the</p> <p>15 operation of business plans.</p> <p>16 Q. Fulfillment; is that correct?</p> <p>17 A. Fulfillment. And Julie Ramroop, Project</p> <p>18 Coordinator. I don't really know what project</p> <p>19 she's working on but -- and then the Database</p> <p>20 Manager is -- that position is vacant at this</p> <p>21 time, and then underneath Sharif in the</p> <p>22 Compliance/Verification Department would be</p> <p>23 our -- the actual compliance, the verification</p> <p>24 reps and that's all they do.</p> <p>25 Q. Right, okay. But they also gather some</p>	<p style="text-align: right;">Page 91</p> <p>1 M. Savage</p> <p>2 Q. Who are?</p> <p>3 A. They would be the equivalent of like a</p> <p>4 paralegal for tax accountants. They gather</p> <p>5 information and talk to clients.</p> <p>6 Q. And your Corporate Department?</p> <p>7 A. That would be the entity setting up the</p> <p>8 entities. Maria is in charge and she has</p> <p>9 Corporate Specialists, meaning, you know, people</p> <p>10 who do the -- who package up -- print off the</p> <p>11 incorporation papers by each state and send them</p> <p>12 to the clients for them to sign.</p> <p>13 Q. Packaging, okay. Maria Petrova, what</p> <p>14 kind of educational background does she have?</p> <p>15 A. I don't know.</p> <p>16 Q. Do you know who would?</p> <p>17 A. Yes. Joe Rush would know, but I could</p> <p>18 find out for you today.</p> <p>19 Q. Okay, so we're talking about tax</p> <p>20 operations, Corporate Department, Maria Petrova</p> <p>21 is Lead Specialist.</p> <p>22 A. I don't know why it says that. That</p> <p>23 doesn't make any sense to me.</p> <p>24 Q. So maybe we'll get some elaboration on</p> <p>25 that.</p>
<p style="text-align: right;">Page 90</p> <p>1 M. Savage</p> <p>2 information you said, may gather some</p> <p>3 information?</p> <p>4 A. They may, ahuh.</p> <p>5 Q. Okay.</p> <p>6 A. And I know that we spoke pretty in depth</p> <p>7 about the tax operations. Joe Rush also oversees</p> <p>8 our Vital Payroll. We provide payroll services</p> <p>9 for our clients, and then here are the different</p> <p>10 zones based on -- so there's three zones. During</p> <p>11 tax season, right now most likely there's four</p> <p>12 zones. It's, you know, tax time is right now.</p> <p>13 Q. Thanks for reminding me.</p> <p>14 A. We get about 10,000 calls a month.</p> <p>15 Q. Who do those calls go to?</p> <p>16 A. Primarily to the accountants.</p> <p>17 Q. Who are they from?</p> <p>18 A. Clients.</p> <p>19 Q. That are already existing clients?</p> <p>20 A. Oh, yes, yes. Most of the calls in</p> <p>21 are -- I would say 90 percent are existing</p> <p>22 clients.</p> <p>23 Q. Down at the bottom you have --</p> <p>24 A. Our tax accountants, our accountants and</p> <p>25 EAs and tax analysts.</p>	<p style="text-align: right;">Page 92</p> <p>1 M. Savage</p> <p>2 A. I think it could be a typo. I don't</p> <p>3 know what "Lead Specialist" is.</p> <p>4 Q. Can you tell me about the Corporate</p> <p>5 Specialists and what kind of background they have</p> <p>6 and what exactly they do?</p> <p>7 A. From my understanding,</p> <p>8 administrative/secretarial role in the sense of</p> <p>9 communicating with clients and gathering</p> <p>10 information and -- very administrative, data</p> <p>11 entry. I would say their background would not</p> <p>12 be -- it doesn't necessarily have to be -- I</p> <p>13 don't know. I don't know what each individual</p> <p>14 background is, but --</p> <p>15 Q. Would Joe Rush know?</p> <p>16 A. Yes.</p> <p>17 Q. You mentioned that they prepare the</p> <p>18 incorporation papers.</p> <p>19 A. Yes. They --</p> <p>20 Q. How do they do that?</p> <p>21 A. They organize them. They will fill them</p> <p>22 in. You know, very similar to, you know,</p> <p>23 incorporation services like a Legal Zoom, if</p> <p>24 you're familiar with them.</p> <p>25 Q. A little bit.</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 93

1 M. Savage
2 A. They're a lead provider. They gather
3 the information. You know, client will say okay,
4 I want an LLC so they'll print off the LLC
5 documentation per state and send it to them,
6 client signs it.
7 Q. Where do they get that stuff?
8 A. Off the web site. Each state has, you
9 know, a commerce web site that has all the forms,
10 or the IRS, federal stuff comes off IRS. A lot
11 of states do it electronically so you don't have
12 to print out the forms.
13 Q. What are they doing? What are -- I
14 mean, maybe we could use an example, but if I
15 wanted to incorporate a business in New York for
16 selling Zabar's cups, I guess I want to know
17 what's the thought process or what are they
18 gathering, what are they spitting out, for lack
19 of a better term, and where are they pulling that
20 information from?
21 A. Okay. It's important to clarify that
22 they don't necessarily advise on what structure
23 would be best.
24 Q. Does someone do that?
25 A. Accountants will. The accountants will

Page 94

1 M. Savage
2 talk to the client. That's why we schedule that
3 accounting assistance meeting immediately and the
4 clients will talk to our -- our accountants will
5 talk to the clients immediately and talk -- these
6 are the tax effects of an S corporation,
7 flow-through entity, this is the tax effects of
8 an LLC taxed as a sole proprietorship or taxed as
9 a partnership. What would you like to do?
10 Q. Who is the first Tax Club employee -- I
11 may have asked this already. Sorry if I did.
12 Who reaches out to the potential
13 customer?
14 A. After the sales verification process we
15 set up a bunch of appointments and the first
16 appointment is with the account executive.
17 Q. Maybe we need to get into sales first.
18 What are they sold at that first I guess -- you
19 know, I mean, this is the very next category.
20 What are they sold at that first sales call?
21 What information is exchanged? I mean, we want
22 to break it down, but that's kind of the gist of
23 my question, because you're talking about
24 fulfillment of a sale that's already made, so
25 what are they sold?

Page 95

1 M. Savage
2 A. They're sold a package, a membership,
3 Tax Club membership which includes tax
4 preparation, tax consulting, tax preparation for
5 both corporate and individual tax returns,
6 consulting.
7 Q. What kind of consulting?
8 A. Tax planning. This would be a better
9 tax scenario for you, if you put that in an LLC,
10 your taxes as an S Corp., this would be the net
11 effect on your tax return.
12 Q. How do they come to choose? With whom
13 are they interfacing when they come to choose
14 which --
15 A. A sales rep. A sales rep won't get into
16 that detail. A sales rep will say --
17 Q. They won't or they shouldn't?
18 A. Well, they shouldn't give specific tax
19 advice. It's on the fine sheet.
20 Q. Okay, the sales -- I just want to
21 understand, and I'm going to break it down
22 specifically.
23 The sales rep is the person who sells
24 them --
25 A. Yes.

Page 96

1 M. Savage
2 Q. -- the membership? As part of the
3 membership are they getting an incorporation?
4 A. Ahuh.
5 Q. Who chooses or decides what
6 incorporation is sold to them?
7 A. Well, what -- what we call
8 "incorporation" is -- includes an LLC, it might
9 be an LLC, it might be an S Corp., it might be a
10 limited family trust, not family trust, a family
11 limited partnership or a C corporation. That's
12 not determined at the point of sale.
13 If I could put words in your mouth, is
14 this what you're asking, what is presented to the
15 client?
16 Q. What are they sold? What is pitched to
17 them at that initial sales call?
18 A. They are presented with -- the client is
19 presented with a Tax Club membership which --
20 when they explain what a Tax Club membership is,
21 they will say it is a membership that includes
22 incorporation services, tax preparation for
23 your -- for whatever corporate structure you
24 decide to establish.
25 Q. Let's stop there. The word "decide,"

<p style="text-align: right;">Page 97</p> <p>1 M. Savage</p> <p>2 who is involved in the decision-making process as</p> <p>3 to which corporate entity is chosen and when does</p> <p>4 that take place?</p> <p>5 A. With the accountant.</p> <p>6 Q. So at the end of the sales call they've</p> <p>7 purchased what?</p> <p>8 A. They've purchased tax preparation, tax</p> <p>9 consulting, unlimited access to a tax advisor</p> <p>10 throughout the year, and the process of</p> <p>11 incorporating.</p> <p>12 Q. At the end of the call, before their</p> <p>13 credit card is charged, do they know what</p> <p>14 corporation they're going to --</p> <p>15 A. No. They might ask a question, and this</p> <p>16 is speculative, what do most people do when --</p> <p>17 for properties? And, you know --</p> <p>18 Q. What is the salesperson --</p> <p>19 A. I mean, the salesperson might say "a lot</p> <p>20 of our clients will form an LLC," but they're not</p> <p>21 saying "form an LLC."</p> <p>22 Q. Do the salespeople sort of run through</p> <p>23 what options there are?</p> <p>24 A. I don't know.</p> <p>25 Q. Do you know who would know?</p>	<p style="text-align: right;">Page 99</p> <p>1 M. Savage</p> <p>2 (Whereupon, AG Exhibit-7, Price lists,</p> <p>3 was marked for identification, as of this</p> <p>4 date by the Reporter.)</p> <p>5 MS. PROSPER: And it's four stapled</p> <p>6 together pages.</p> <p>7 Q. Can you look at that and tell me if it's</p> <p>8 something that's familiar to you?</p> <p>9 A. Yes.</p> <p>10 Q. What is that?</p> <p>11 A. A description of products and price</p> <p>12 points.</p> <p>13 Q. What kinds of products are these and</p> <p>14 here's -- I'll help you, are these the initial</p> <p>15 products sold or is that a fair representation --</p> <p>16 A. Yes.</p> <p>17 Q. -- of what this list represents --</p> <p>18 A. Yes.</p> <p>19 Q. -- versus later products that might be</p> <p>20 sold to a customer?</p> <p>21 A. Yes.</p> <p>22 Q. So there are a lot of things on the</p> <p>23 list, and we don't have to go through each and</p> <p>24 every one, but can you give me a sense of the</p> <p>25 difference between some of these packages? First</p>
<p style="text-align: right;">Page 98</p> <p>1 M. Savage</p> <p>2 A. Brendan Pack, as per the script.</p> <p>3 Q. I'm glad you talked about scripts. What</p> <p>4 we received in our -- in what you produced were</p> <p>5 compliance scripts, at least I didn't see any</p> <p>6 like sales scripts. I saw sort of outlines for</p> <p>7 and I saw -- maybe I just didn't find them.</p> <p>8 A. I'll get those to you right away.</p> <p>9 Q. I'm interested in how the sales folks</p> <p>10 are trained, what it is that they're supposed to</p> <p>11 be pitching, like what you've entered already,</p> <p>12 tax preparation services and membership, if you</p> <p>13 could tell me a little bit about how the</p> <p>14 membership works, like -- maybe I'll help you a</p> <p>15 little bit, and pardon our very elementary</p> <p>16 splicing together of this but it wouldn't fit on</p> <p>17 legal and it wouldn't -- so what I've done here,</p> <p>18 and you could -- if it's not accurate, please</p> <p>19 tell me, is spliced together in pages of three, I</p> <p>20 have four long sheets which are three and a half</p> <p>21 by 11 sheets stapled together of what you gave us</p> <p>22 as your incorporation packages, and so let's mark</p> <p>23 this, please, as AG Number 7 I believe we're up</p> <p>24 to, and it was called Price Lists in the</p> <p>25 production.</p>	<p style="text-align: right;">Page 100</p> <p>1 M. Savage</p> <p>2 of all, I want to know what -- can you give me</p> <p>3 some of the names, if we could start with the</p> <p>4 first two or three?</p> <p>5 MS. PROSPER: Sorry. If this is</p> <p>6 something you recognize, let's go ahead and</p> <p>7 put it into evidence as AG 7 and then we'll</p> <p>8 start talking about it.</p> <p>9 (Whereupon, AG Exhibit-7, as previously</p> <p>10 described, was marked in evidence, as of this</p> <p>11 date by the Reporter.)</p> <p>12 Q. So let's go down maybe the first three</p> <p>13 or four and tell us the titles they have and if</p> <p>14 you could sort of briefly describe the</p> <p>15 differences between them and then sort of give me</p> <p>16 a general overview of what other differences</p> <p>17 there might be, other than the prices.</p> <p>18 A. Okay. Corporation Document Package,</p> <p>19 item number one, would be access to our E-tax</p> <p>20 hotline, which is electronic access to</p> <p>21 accountants to ask tax questions.</p> <p>22 Q. When you say "electronic," is it like</p> <p>23 one of those -- is it live?</p> <p>24 A. E-mail.</p> <p>25 Q. So you e-mail a question and then</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 101</p> <p>1 M. Savage</p> <p>2 someone e-mails you back?</p> <p>3 A. Yes, as opposed to calling.</p> <p>4 Q. Or one of those -- what do you call that</p> <p>5 when you live --</p> <p>6 A. Chat.</p> <p>7 Q. -- live chats?</p> <p>8 A. I think we have a chat here and there.</p> <p>9 I know we do during tax season.</p> <p>10 Corporation & Kit meaning the</p> <p>11 corporation -- what we mean by this is it's -- it</p> <p>12 doesn't necessarily have to be a corporation. It</p> <p>13 could be an LLC or it could be, you know, a</p> <p>14 limited liability partnership, but what we mean</p> <p>15 by that is the corporation paperwork to file for</p> <p>16 a corporation, and the kit is, you know, the seal</p> <p>17 and the stock certificates, if applicable, you</p> <p>18 know, generic operating agreement.</p> <p>19 Q. And the salesperson, what are they</p> <p>20 supposed to be --</p> <p>21 A. I mean --</p> <p>22 Q. Again, I don't want to assume things,</p> <p>23 but I'm assuming that you want sort of higher</p> <p>24 sales, and as I look down on this list, the</p> <p>25 products get more expensive.</p>	<p style="text-align: right;">Page 103</p> <p>1 M. Savage</p> <p>2 Q. So please explain that.</p> <p>3 A. That's access to an accountant, access</p> <p>4 to our members-only portion of our web site, but</p> <p>5 yeah, it's part of being able to call in or in</p> <p>6 the case of E-tax hotline, being able to e-mail</p> <p>7 in year-round tax questions, so, for example, if</p> <p>8 you're at a dealership and you want to know if</p> <p>9 the SUV you want to buy is tax deductible, you</p> <p>10 could call the accountant and say hey, is this</p> <p>11 tax deductible?</p> <p>12 Q. You pay that monthly membership fee for</p> <p>13 how long?</p> <p>14 A. For as long as you're current with your</p> <p>15 membership.</p> <p>16 Q. What does that mean?</p> <p>17 A. Meaning as long as you don't cancel.</p> <p>18 You could cancel at any time.</p> <p>19 Q. I'm starting a Zabar's cup selling</p> <p>20 business, I purchase one of your initial packages</p> <p>21 and I pay a fee. Outside of that there's a</p> <p>22 monthly fee to sort of maintain, is that the</p> <p>23 correct word?</p> <p>24 A. Right.</p> <p>25 Q. The ability to contact The Tax Club with</p>
<p style="text-align: right;">Page 102</p> <p>1 M. Savage</p> <p>2 Before we get into that, talk about</p> <p>3 how -- what this POS Price? And then there's a</p> <p>4 2nd Half, I'm not very good at reading upside</p> <p>5 down, Monthly Price, Quarterly Price.</p> <p>6 Before we get to the description, how is</p> <p>7 that structured? How are people --</p> <p>8 A. Sure. Point of Sale Price, this would</p> <p>9 be the most -- you know, basic -- this is how</p> <p>10 much it costs, that's it. Half price would be</p> <p>11 if -- some of our clients opt to have -- you</p> <p>12 know, if they don't have, let's say, \$1,400 but</p> <p>13 they really want the product and they have \$750,</p> <p>14 we'll say you could pay us half the price later,</p> <p>15 whether it's a month, two months or three months.</p> <p>16 We'll put that into our system to automatically</p> <p>17 bill them the second half price at a determined</p> <p>18 time.</p> <p>19 Q. At an agreed upon time?</p> <p>20 A. Yes. Monthly is the monthly cost for --</p> <p>21 associated with our membership.</p> <p>22 Q. Is that paid off at a certain time</p> <p>23 frame? The monthly membership, is that like a</p> <p>24 payment plan or --</p> <p>25 A. No.</p>	<p style="text-align: right;">Page 104</p> <p>1 M. Savage</p> <p>2 tax related questions?</p> <p>3 A. Yes.</p> <p>4 Q. So also inside of that is my</p> <p>5 understanding that there's an incorporation or</p> <p>6 some kind of corporate structure that is built?</p> <p>7 A. Corporate documentation will be</p> <p>8 prepared, not necessarily associated with the</p> <p>9 monthly though.</p> <p>10 Q. Not associated with the monthly. So</p> <p>11 would you say that that piece of it is a</p> <p>12 one-time --</p> <p>13 A. Yes.</p> <p>14 Q. I just want to get really specific here.</p> <p>15 At the end of the sales call, when all</p> <p>16 is said and done and you have the compliance</p> <p>17 people come on, what have I bought?</p> <p>18 A. Depending on your package, let's use a</p> <p>19 basic package, you have bought tax preparation,</p> <p>20 meaning we're going to prepare your taxes, sign</p> <p>21 the return, you bought access to an accountant,</p> <p>22 like the upfront fee I guess you could say, if</p> <p>23 you want to associate the monthly with the access</p> <p>24 and consulting, planning, and that's what we do</p> <p>25 in the beginning, we'll do a tax plan, and in</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 105</p> <p>1 M. Savage</p> <p>2 some cases, in some packages --</p> <p>3 Q. What is a tax plan based on?</p> <p>4 A. Your current situation. Like you would</p> <p>5 say okay, I have this business, I have that</p> <p>6 business, I have this car that I use for the</p> <p>7 business, I have these dependents, these kids,</p> <p>8 you know, I got this, this and that and we'll say</p> <p>9 okay, this is your plan, if you change this up,</p> <p>10 this is would be your savings.</p> <p>11 Q. When is the information gathered for</p> <p>12 that tax plan?</p> <p>13 A. In the beginning of the membership.</p> <p>14 Q. What is to you the beginning of the</p> <p>15 membership?</p> <p>16 A. We set up -- we set the appointment up</p> <p>17 immediately. Within five days we try and get the</p> <p>18 process started, but I would say that it varies</p> <p>19 depending on the client's responsiveness to the</p> <p>20 questions we ask. You know, they might need to</p> <p>21 go look up, you know, information as to like how</p> <p>22 many brokerage accounts they have or what stocks</p> <p>23 they've sold. There's a lot of variability, but</p> <p>24 the back and forth probably will go on for six</p> <p>25 months in an extreme case.</p>	<p style="text-align: right;">Page 107</p> <p>1 M. Savage</p> <p>2 A. Well, you get an e-mail explaining</p> <p>3 exactly what it is that you bought. "Tangible"</p> <p>4 in the sense of physical -- I mean, we're selling</p> <p>5 a service, so I would say nothing, you know,</p> <p>6 physical.</p> <p>7 MR. MITCHELL: Just to interject, let's</p> <p>8 say she wants to start this business with the</p> <p>9 cups, in selling the cups, she makes -- she</p> <p>10 gets a phone call, correct, and just</p> <p>11 reiterate, what is described to her by the</p> <p>12 salesperson during that phone call</p> <p>13 surrounding the services that she's expected</p> <p>14 to get and the services surrounding the type</p> <p>15 of corporation or entity to set up.</p> <p>16 THE WITNESS: Okay, she's going to get a</p> <p>17 phone call saying Tax Club membership, buy</p> <p>18 this Tax Club membership and this is what the</p> <p>19 membership is; it's access to an accountant</p> <p>20 year round so if you have tax questions you</p> <p>21 call in any time and get those questions</p> <p>22 answered. It includes tax planning, initial</p> <p>23 planning and also includes tax preparation,</p> <p>24 you know, you give us the information in</p> <p>25 order to prepare this 1120S for you, we sign</p>
<p style="text-align: right;">Page 106</p> <p>1 M. Savage</p> <p>2 Q. Before --</p> <p>3 A. We try to get that done immediately.</p> <p>4 Q. So the six months before the plan is</p> <p>5 implemented?</p> <p>6 A. No. We'll start giving them -- we'll</p> <p>7 give them plans based on the information they</p> <p>8 provide us immediately. You know, a lot of trial</p> <p>9 and error. We've -- clients get upset saying</p> <p>10 hey, I bought this plan, where's my plan? Well,</p> <p>11 you haven't given us your information. Well,</p> <p>12 when they provide us basic information we say</p> <p>13 this is where you're at, but if you give us this</p> <p>14 X information, it will get more comprehensive.</p> <p>15 Q. At what point is a discussion had about</p> <p>16 how to incorporate, what entity to choose?</p> <p>17 A. That happens with the accountant.</p> <p>18 Q. That happens approximately how many days</p> <p>19 afterwards?</p> <p>20 A. That process would start five days</p> <p>21 afterwards with the accounting assistance</p> <p>22 appointment.</p> <p>23 Q. So at the end of my call when I turn</p> <p>24 over my credit card information, do I get</p> <p>25 anything tangible right away?</p>	<p style="text-align: right;">Page 108</p> <p>1 M. Savage</p> <p>2 it, we'll either E-file it, send it to you,</p> <p>3 you could sign it and send it in or -- and</p> <p>4 then the monthly -- and an incorporation, we</p> <p>5 will prepare the documentation. For example,</p> <p>6 anyone can incorporate. I don't even do it</p> <p>7 myself. If I want to incorporate, I usually</p> <p>8 go to legalzoom.com and they'll -- you know,</p> <p>9 I'll just fill in the -- fill out the survey</p> <p>10 and they'll spit me out the forms that I</p> <p>11 print out, sign, send off and send the state</p> <p>12 filing fees for, so we'll provide that</p> <p>13 process, and -- but we don't pay -- the</p> <p>14 prices, the initial price does not include</p> <p>15 the state filing fees. We don't pay state</p> <p>16 filing fees on behalf of the clients.</p> <p>17 So you're selling cups, you get the --</p> <p>18 you know, judyscups.com, whatever LLC or S</p> <p>19 Corp., Inc., whatever you decide.</p> <p>20 BY MS. PROSPER:</p> <p>21 Q. I'm sorry, I will decide that</p> <p>22 approximately five days later with an accountant?</p> <p>23 That's not decided at the time of the sales call.</p> <p>24 I have not chosen yet whether I want to be an LLC</p> <p>25 or S Corp.</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 109</p> <p>1 M. Savage</p> <p>2 A. Sometimes. Depends.</p> <p>3 Q. How does that process work? You're</p> <p>4 calling me because I went to cups.com and found</p> <p>5 Zabar's cups. You know, I think they're going to</p> <p>6 sell, so you obtain my name by one of the means</p> <p>7 we talked about earlier, the lead source</p> <p>8 referral, you call me and say hey, we've got</p> <p>9 great tax preparation services. At some point do</p> <p>10 you ask me whether I'm already incorporated or --</p> <p>11 I mean, what information is gathered -- I mean,</p> <p>12 obviously, you know, we've heard sales calls</p> <p>13 because they were sent to us. What information</p> <p>14 is gathered during that sales call? How is that</p> <p>15 information manipulated to come up with a</p> <p>16 solution for me? What questions am I asked in</p> <p>17 that initial sales call?</p> <p>18 A. I would say every sales call is</p> <p>19 different and --</p> <p>20 Q. How about what questions do you expect</p> <p>21 sales folks to ask?</p> <p>22 A. I would expect them to say have you</p> <p>23 thought about incorporating your business, have</p> <p>24 you thought about, you know, getting a web site,</p> <p>25 have you thought about, you know, office -- home</p>	<p style="text-align: right;">Page 111</p> <p>1 M. Savage</p> <p>2 preparing any of the incorporation documents</p> <p>3 whatsoever. I know that for a fact.</p> <p>4 Q. So they're not preparing them, but are</p> <p>5 they helping the customer choose which type of</p> <p>6 incorporation they may want to affiliate their</p> <p>7 company with?</p> <p>8 A. Are they? Again, I can't speak of a</p> <p>9 particular situation, and I know that, you know,</p> <p>10 we have thousands of calls a week and I don't</p> <p>11 know exactly -- they're not supposed to --</p> <p>12 they're not supposed to give legal advice.</p> <p>13 Q. So let's elaborate on that. So are you</p> <p>14 saying that to choose between which corporate</p> <p>15 entity to incorporate is legal advice?</p> <p>16 A. I would say in some cases.</p> <p>17 Q. So at the end of my call when I turn</p> <p>18 over my credit card, I have -- you spoke of it</p> <p>19 earlier, three days or 15 days depending on -- so</p> <p>20 right now what I bought is the ability to call in</p> <p>21 really, it's almost virtual?</p> <p>22 A. It's a service.</p> <p>23 Q. It's a service, and I have three days to</p> <p>24 decide on a refund?</p> <p>25 A. Ahuh.</p>
<p style="text-align: right;">Page 110</p> <p>1 M. Savage</p> <p>2 office deductions? These are all things that our</p> <p>3 accountants will be able to help you out with but</p> <p>4 things that you'll need.</p> <p>5 Q. At the end of my call, and I'm going to</p> <p>6 jump ahead to some other things, at the end of</p> <p>7 our call when I've purchased one of these</p> <p>8 packages and he reviewed what's in it, let's say</p> <p>9 the basic one, so I expect to pay my monthly dues</p> <p>10 and be able to call in at any time from the car</p> <p>11 dealership, from the restaurant or my cruise, are</p> <p>12 the salespeople supposed to give sort of</p> <p>13 scenarios of different ways I might be able to</p> <p>14 incorporate or are the salespeople -- do the</p> <p>15 salespeople have a list of the different types of</p> <p>16 incorporations, are they comparing and</p> <p>17 contrasting the different corporations to the</p> <p>18 sales -- to this potential customer?</p> <p>19 A. I can't speak to exactly what any</p> <p>20 particular sales rep has said. There are</p> <p>21 scenarios that I could see would be appropriate</p> <p>22 to say this is what -- this is how someone is</p> <p>23 incorporated, this is how -- these are the</p> <p>24 differences, maybe, but I would assume or hope</p> <p>25 that -- I know that the sales reps are not</p>	<p style="text-align: right;">Page 112</p> <p>1 M. Savage</p> <p>2 Q. In those three days, do I have any</p> <p>3 basis, other than oh my, I just spent so much</p> <p>4 money to -- have I received any service or is</p> <p>5 there anything tangibly that I could say this is</p> <p>6 done terribly and very poorly, I would like my</p> <p>7 money back, is there something that's given</p> <p>8 service wise or tangible to the customer, the new</p> <p>9 customer within that time frame?</p> <p>10 A. I would say in some situations, yes.</p> <p>11 Q. Something like what?</p> <p>12 A. We've had clients come aboard who were</p> <p>13 getting audited and within, you know, a very</p> <p>14 short period of time immediately we will gather</p> <p>15 their information, help them with the audit, call</p> <p>16 the IRS on their behalf and in that situation I</p> <p>17 would say the client would be very happy.</p> <p>18 Q. And that's not a client whom you have</p> <p>19 solicited to purchase something?</p> <p>20 A. It could be.</p> <p>21 Q. So someone who you call may say oh, I'm</p> <p>22 so glad you called, I'm not trying -- this is</p> <p>23 just me, I'm so glad you called, I just got a</p> <p>24 letter from the IRS last week that I'm being</p> <p>25 audited so let's get started on this?</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 113</p> <p>1 M. Savage</p> <p>2 A. I'm sure a sales rep would be happy to</p> <p>3 get that call.</p> <p>4 Q. I bet they would.</p> <p>5 In this window time, you know, three-day</p> <p>6 or 15-day window, what is -- what may I have in</p> <p>7 front of me, what might I have in front of me</p> <p>8 after paying for the service to evaluate whether</p> <p>9 or not I'm getting my monies worth or whether I</p> <p>10 want to continue?</p> <p>11 A. Well, you get -- it varies by product.</p> <p>12 We're specifically speaking about this product.</p> <p>13 You get access to an accountant, means you could</p> <p>14 start calling immediately.</p> <p>15 Q. What if I don't have any questions in</p> <p>16 the first three days?</p> <p>17 A. I guess what -- the consideration that</p> <p>18 you're getting -- that you're getting immediately</p> <p>19 would be, you know, the access is one.</p> <p>20 Q. The ability?</p> <p>21 A. Yes. We immediately start with the</p> <p>22 documentation preparation for the entity.</p> <p>23 Q. "Immediately," elaborate on that,</p> <p>24 please.</p> <p>25 A. I would say the very next day it's in</p>	<p style="text-align: right;">Page 115</p> <p>1 M. Savage</p> <p>2 what you're getting is obviously beyond the</p> <p>3 access to, you know, the services, you're getting</p> <p>4 an EIN number, which, you know, maybe to you and</p> <p>5 I it's easy to go on the IRS web site and obtain</p> <p>6 but to a lot of our clients I think they</p> <p>7 appreciate the guidance from people who have done</p> <p>8 thousands and thousands of them, and in some</p> <p>9 cases you'll get access to -- immediately access</p> <p>10 to our members-only section of our web site which</p> <p>11 has a ton of information on starting a small</p> <p>12 business. In some of these packages you'll get</p> <p>13 money management guide, start-up guide.</p> <p>14 Q. Is some of that -- I'm glad you</p> <p>15 mentioned that, the access.</p> <p>16 A. Immediately.</p> <p>17 Q. Could I find on the web site some</p> <p>18 information about what kind of business I want to</p> <p>19 incorporate as? Is there a guide of some kind on</p> <p>20 the web site?</p> <p>21 A. Not that I know of.</p> <p>22 Q. Do you know who would know?</p> <p>23 A. I would. Tom, but Gary would know, Gary</p> <p>24 Milkwick.</p> <p>25 Q. I guess what I'm -- we're going back and</p>
<p style="text-align: right;">Page 114</p> <p>1 M. Savage</p> <p>2 process.</p> <p>3 Q. What's in process?</p> <p>4 A. The incorporation paperwork,</p> <p>5 discussions.</p> <p>6 Q. I really want to clarify this point. If</p> <p>7 the decision is not made but with the accountant</p> <p>8 five days later, what is in process?</p> <p>9 A. We'll get an EIN number immediately,</p> <p>10 that's electronic. I think we get that within</p> <p>11 three days.</p> <p>12 Q. And an EIN number is --</p> <p>13 A. Employer Identification Number.</p> <p>14 Q. What does that get me?</p> <p>15 A. The incorporation process, so you're</p> <p>16 incorporated.</p> <p>17 Q. Incorporated as what? I'm just a</p> <p>18 corporation?</p> <p>19 A. Yes.</p> <p>20 Q. And so you mentioned the paperwork is</p> <p>21 starting immediately. What paperwork is starting</p> <p>22 immediately and when do I get it?</p> <p>23 A. Well, some states are paperless so</p> <p>24 there's -- in some situations you never get</p> <p>25 anything tangible or physical necessarily, but</p>	<p style="text-align: right;">Page 116</p> <p>1 M. Savage</p> <p>2 forth because I'm a little bit confused. Now</p> <p>3 that I've handed over my money, I have the</p> <p>4 access, that piece I understand. I get an EIN</p> <p>5 which I'm not really quite sure what the EIN gets</p> <p>6 me in terms of -- I mean, does it hold a</p> <p>7 corporate name? What does the EIN do?</p> <p>8 A. Yes. It gets your corporate name. When</p> <p>9 you incorporate, you incorporate federally and</p> <p>10 locally with the state. It takes care of the</p> <p>11 federal incorporation and in some cases with a</p> <p>12 state -- I don't which states are completely</p> <p>13 electronic, but, in other words, within three</p> <p>14 days, yes, there are situations where you could</p> <p>15 be fully incorporated.</p> <p>16 Q. How does that full incorporation occur</p> <p>17 within three days if I haven't spoken to an</p> <p>18 accountant yet, like how would that scenario</p> <p>19 occur?</p> <p>20 A. I don't know.</p> <p>21 MR. MITCHELL: Then, again, just to</p> <p>22 piggyback, you don't know if it's a Y Corp.</p> <p>23 or S Corp. or LLC?</p> <p>24 THE WITNESS: In some cases.</p> <p>25 MR. MITCHELL: You get an EIN number and</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 117</p> <p>1 M. Savage</p> <p>2 it starts the incorporation process?</p> <p>3 THE WITNESS: Yes.</p> <p>4 MR. MITCHELL: And we are not sure from</p> <p>5 what point from there do we become</p> <p>6 incorporated by way of an LLC, S Corp., and</p> <p>7 the decision that is made, is that made with</p> <p>8 an accountant, how much time after the EIN</p> <p>9 number is given do we make a call, does the</p> <p>10 accountant call us or e-mail us? How does</p> <p>11 that process work?</p> <p>12 THE WITNESS: Right, in some cases, and</p> <p>13 I would say probably close to half, I think</p> <p>14 this is an important point, is that clients</p> <p>15 will know what entity they want and they'll</p> <p>16 insist on an entity. You know, they'll say I</p> <p>17 want an LLC, we're not going to talk them out</p> <p>18 of it. In cases of that, I think it's a</p> <p>19 little bit more clear-cut, but, you know,</p> <p>20 when people say yes to the access to a</p> <p>21 specialist, we have to make sure that</p> <p>22 specialist is staffed. We have to make sure</p> <p>23 they're available. We have to make sure that</p> <p>24 they're there to make the appointment, and,</p> <p>25 like we said earlier, they're expensive. We</p>	<p style="text-align: right;">Page 119</p> <p>1 M. Savage</p> <p>2 don't want to put words in your mouth, they're</p> <p>3 more form based or are they more specific to the</p> <p>4 client? You mentioned earlier -- I always like</p> <p>5 to take off from where you mention something.</p> <p>6 You mentioned earlier that you go to the 50</p> <p>7 Secretary of State web sites and pull documents</p> <p>8 from there. Are there other sources from where</p> <p>9 you might pull documents --</p> <p>10 A. No.</p> <p>11 Q. -- to create an entity?</p> <p>12 Again, I'm interested in the</p> <p>13 decision-making process of choosing. I just</p> <p>14 bought, however I did, from one of your lead</p> <p>15 sources this cup franchise and you call me and</p> <p>16 this is sort of all virtual and hypothetical, I</p> <p>17 don't know that you're calling, I don't know what</p> <p>18 services you're going to offer me, I am, let's</p> <p>19 say, just selling them out of my garage, I'm not</p> <p>20 thinking about liability or incorporating</p> <p>21 necessarily. In the sales pitch, you know, what</p> <p>22 if I don't need incorporation or what if I don't</p> <p>23 want incorporation or what if -- not to ask so</p> <p>24 many questions, but I'm just trying to get us to</p> <p>25 think a little bit, what if I'm already</p>
<p style="text-align: right;">Page 118</p> <p>1 M. Savage</p> <p>2 pay our accountants a lot, and so that's why</p> <p>3 we have -- you know, we'll get people their</p> <p>4 money back up to 15 days if they're unhappy</p> <p>5 with the services regardless of how much</p> <p>6 they've actually used us.</p> <p>7 BY MS. PROSPER:</p> <p>8 Q. Now, I mean, 85 percent they'll get</p> <p>9 their money back within 15 days?</p> <p>10 A. Ahuh.</p> <p>11 Q. Even if you've already produced the</p> <p>12 incorporation papers for them?</p> <p>13 A. Yes, even if we prepared tax returns for</p> <p>14 them.</p> <p>15 Q. Within 15 days they get 85 percent?</p> <p>16 A. Yes.</p> <p>17 Q. It's not based on use, that's the</p> <p>18 question that I have?</p> <p>19 A. No.</p> <p>20 Q. This is probably a good time. What</p> <p>21 kinds of corporate structures can The Tax Club</p> <p>22 help a client form?</p> <p>23 A. Anything, trust, anything from a sole</p> <p>24 proprietorship to a trust.</p> <p>25 Q. In creating these, would you say -- I</p>	<p style="text-align: right;">Page 120</p> <p>1 M. Savage</p> <p>2 incorporated?</p> <p>3 A. Which happens a lot, and in some cases,</p> <p>4 you know, it's good to have separate corporations</p> <p>5 for separate properties. I mean, on a</p> <p>6 case-by-case basis there definitely would be</p> <p>7 scenarios where one corporation is not enough.</p> <p>8 We do get leads from a lead source Legal Zoom and</p> <p>9 they already have corporations so we're just</p> <p>10 selling tax preparation to them.</p> <p>11 Q. You just said, right before you said</p> <p>12 that there may be circumstances where one</p> <p>13 corporation isn't enough. Who is involved in</p> <p>14 helping me, the customer? I'm fine with my sole</p> <p>15 proprietorship but someone is, for lack of a</p> <p>16 better term, talking me into purchasing the</p> <p>17 corporation, incorporation services, who is doing</p> <p>18 that?</p> <p>19 A. I could see a scenario where it would</p> <p>20 not be deemed giving tax advice.</p> <p>21 (A recess was taken.)</p> <p>22 Q. So we were discussing sort of</p> <p>23 expectations and outcome of this initial sales</p> <p>24 call from The Tax Club to potential clients and</p> <p>25 what the potential client has at the end of the</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 121</p> <p>1 M. Savage</p> <p>2 sales call, whether tangible or service wise or</p> <p>3 the potential to tap into services.</p> <p>4 I just have a question. Is there a</p> <p>5 process for deciding what will initially be</p> <p>6 offered to what customer or are all customers</p> <p>7 offered the same thing?</p> <p>8 A. There's no process.</p> <p>9 Q. So are salespeople trained to offer the</p> <p>10 same product or the same series of products to</p> <p>11 potential customers?</p> <p>12 A. Yes. They're based on teams. The sales</p> <p>13 teams are based on products and, you know, it</p> <p>14 might be a variation of a Tax Club membership, it</p> <p>15 might be tax -- it might be an incorporation kit</p> <p>16 or not, might be preparation or not. A lot of</p> <p>17 clients like to stay with their local CPA but</p> <p>18 they want access. They like that access to the</p> <p>19 tax hotline to be able to ask a lot -- there's a</p> <p>20 lot of -- there's a lot of questions that new</p> <p>21 business owners have when it comes to taxes, so</p> <p>22 maybe that's all they want.</p> <p>23 Q. You said that it's done by teams. Are</p> <p>24 the sales, these initial calls by the</p> <p>25 salesperson, are they selling anything other than</p>	<p style="text-align: right;">Page 123</p> <p>1 M. Savage</p> <p>2 Q. What is a salesperson trained to do in</p> <p>3 that case?</p> <p>4 A. Trained to do? Not offer legal advice.</p> <p>5 Q. Do they say something to the potential</p> <p>6 customer?</p> <p>7 A. I don't know.</p> <p>8 Q. I mean, I don't know how intricately</p> <p>9 familiar you are with the training that a</p> <p>10 salesperson gets, and if you're not, then tell me</p> <p>11 who actually --</p> <p>12 A. They are instructed to say that they are</p> <p>13 not attorneys and they are not accountants and</p> <p>14 they are to not give legal advice.</p> <p>15 Q. Are they instructed to that say at the</p> <p>16 onset, like don't ask me any legal questions or</p> <p>17 only if a legal question would come up would they</p> <p>18 be instructed to say that?</p> <p>19 A. I don't know if it's before or after.</p> <p>20 Q. Who would know, do you know?</p> <p>21 A. Jason Baum.</p> <p>22 Q. Who does the sales training?</p> <p>23 A. Jason Baum.</p> <p>24 Q. All of it himself?</p> <p>25 A. No.</p>
<p style="text-align: right;">Page 122</p> <p>1 M. Savage</p> <p>2 what's on the list, AG Exhibit-7? Are they</p> <p>3 selling some of the other products that your</p> <p>4 company sells, that Manhattan Professional Group</p> <p>5 sells?</p> <p>6 A. Initially?</p> <p>7 Q. Initially, this first call.</p> <p>8 A. In some instances, yes.</p> <p>9 Q. In what instances?</p> <p>10 A. A contractual agreement with a referral</p> <p>11 partner who wants us to sell, I don't know,</p> <p>12 business plan first. That's an example I could</p> <p>13 think of. Not common. This is the vast, vast</p> <p>14 majority of what is initially offered.</p> <p>15 Q. What would happen if a potential</p> <p>16 customer sought what you would consider legal</p> <p>17 advice from a salesperson?</p> <p>18 A. If they thought it was legal advice?</p> <p>19 Q. Yes, if they had a question, if the</p> <p>20 potential customer during the call had a legal</p> <p>21 question and they don't know who they're talking</p> <p>22 to, they say, hey, salesperson, answer me this</p> <p>23 legal question, what is supposed to happen per</p> <p>24 the training manner?</p> <p>25 A. No legal advice.</p>	<p style="text-align: right;">Page 124</p> <p>1 M. Savage</p> <p>2 Q. Who else?</p> <p>3 A. He's in charge of monitoring so he'll do</p> <p>4 a weekly sales training. Brendan Pack does sales</p> <p>5 training and Preston Clark.</p> <p>6 Q. Is that sales training for when</p> <p>7 employees first come to work before they get on</p> <p>8 the phone?</p> <p>9 A. Yes. In fact, now we have -- they have</p> <p>10 to take a test on our products before they could</p> <p>11 sell them. We have all that information, all the</p> <p>12 disclosures and agreements that they sign into</p> <p>13 saying I won't do this, this and this. Every</p> <p>14 sales rep has that.</p> <p>15 Q. Every sales rep has that?</p> <p>16 A. Yes.</p> <p>17 Q. And how much training do the sales rep</p> <p>18 get, like how many days?</p> <p>19 A. At least once a week and probably on</p> <p>20 average twice a week.</p> <p>21 Q. I'm saying before they come on board,</p> <p>22 before they start making phone calls, sales</p> <p>23 calls.</p> <p>24 A. There's a series of webinars, you know,</p> <p>25 electronic training courses, as well as personal,</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 125</p> <p>1 M. Savage</p> <p>2 you know, live training. How much they get? I</p> <p>3 don't know.</p> <p>4 Q. One of the two names you mentioned</p> <p>5 earlier, the trainers would know how much they</p> <p>6 get?</p> <p>7 A. Yes.</p> <p>8 Q. Are they paid during the training</p> <p>9 period?</p> <p>10 A. Yes.</p> <p>11 Q. Do you know over what period of time the</p> <p>12 training takes place?</p> <p>13 A. Constantly in training.</p> <p>14 Q. Before they get on the phone?</p> <p>15 A. Initial training?</p> <p>16 Q. Yes, initial training.</p> <p>17 A. I do not know.</p> <p>18 Q. And the same folks who do the training</p> <p>19 would know?</p> <p>20 A. Yes.</p> <p>21 Q. Okay, what information are new customers</p> <p>22 given regarding how to use the services that they</p> <p>23 just purchased? For example, I think you</p> <p>24 mentioned an e-mail. What are they -- is</p> <p>25 generated right after they make the purchase?</p>	<p style="text-align: right;">Page 127</p> <p>1 M. Savage</p> <p>2 the ones that don't?</p> <p>3 A. We try to get them to sign it because it</p> <p>4 helps us down the road.</p> <p>5 Q. What is the E-agreement? What are they</p> <p>6 agreeing to?</p> <p>7 A. Agreeing to -- the description exactly</p> <p>8 of what the package is that they bought, a</p> <p>9 cancellation policy, refund policy. It's kind --</p> <p>10 it's a mode that we use to, you know, further</p> <p>11 manage their expectation. This is what you got,</p> <p>12 this is what's coming, these are your</p> <p>13 appointments, this is who to talk to and whatnot.</p> <p>14 Q. Can you explain those appointments, the</p> <p>15 initial? Just explain to me when you say "these</p> <p>16 are your appointments," what appointments are you</p> <p>17 talking about?</p> <p>18 A. Immediately set up within 24 hours</p> <p>19 with -- 24, 48 hours with an account executive</p> <p>20 who then understands the situation of the client</p> <p>21 and gets them on the path of, you know,</p> <p>22 incorporating and sets up -- we also set up an</p> <p>23 accounting assistance appointment. We're</p> <p>24 assuming that they buy a Tax Club membership</p> <p>25 because they need The Tax Club, they need tax</p>
<p style="text-align: right;">Page 126</p> <p>1 M. Savage</p> <p>2 Phone call ends, what do I have, what information</p> <p>3 do I have for what I just purchased, how to use</p> <p>4 it, how to tap into it? I have a burning</p> <p>5 question right after I hang up the phone, what do</p> <p>6 I do?</p> <p>7 A. They are assigned an account executive</p> <p>8 immediately. If they have a burning question,</p> <p>9 they will be transferred to the account executive</p> <p>10 to determine what their question is and what's</p> <p>11 the best, you know, how to route that question to</p> <p>12 their accountant, to there team.</p> <p>13 Q. What if it's after I hung up, what if</p> <p>14 have it tomorrow morning, what do I know at the</p> <p>15 end of my call about how to access the services?</p> <p>16 A. Right after the salesperson made and</p> <p>17 verified, you get an agreement via e-mail stating</p> <p>18 phone numbers, exactly how -- who to call in,</p> <p>19 what to do in the event of a question, again,</p> <p>20 reiterating what you bought, our cancellation</p> <p>21 policy, and then the link for an E-agreement,</p> <p>22 E-signature agreement where they sign exactly</p> <p>23 stating what they bought, how much they bought it</p> <p>24 for, and most of our clients sign that.</p> <p>25 Q. Most of them sign it. What happens to</p>	<p style="text-align: right;">Page 128</p> <p>1 M. Savage</p> <p>2 preparation, tax advice, so we get to an</p> <p>3 accountant as soon as possible.</p> <p>4 Q. Are there any other appointments that</p> <p>5 are set up for them?</p> <p>6 A. There are several appointments set up,</p> <p>7 and I don't know every single one.</p> <p>8 Q. What are they for?</p> <p>9 A. I know -- okay, we, again, have account</p> <p>10 executive appointment, we have accounting</p> <p>11 assistance appointment. In some cases we have a</p> <p>12 corporate specialist if they already know what</p> <p>13 entity they want. There are -- there's a</p> <p>14 bookkeeping appointment to evaluate their record</p> <p>15 keeping system.</p> <p>16 Q. I'm just going to backup a little bit</p> <p>17 and then I'm going to follow up on what you said.</p> <p>18 What method of payment does Tax Club</p> <p>19 accept?</p> <p>20 A. Credit cards, checks.</p> <p>21 Q. How would you process a check over the</p> <p>22 phone?</p> <p>23 A. We don't process checks over the phone.</p> <p>24 They mail them in.</p> <p>25 Q. When does their membership start?</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 129</p> <p>1 M. Savage</p> <p>2 A. As soon as we get payment.</p> <p>3 Q. You talked about the compliance folks</p> <p>4 coming in. Are the sales people on the line when</p> <p>5 the compliance person comes on the line?</p> <p>6 A. No, not in New York, maybe in Utah.</p> <p>7 Q. So the salesperson is cutoff somehow</p> <p>8 from the call?</p> <p>9 A. It's transferred.</p> <p>10 Q. It's transferred, and do they come back</p> <p>11 to the salesperson?</p> <p>12 A. Sometimes. If there like hey, you know,</p> <p>13 they have -- they're not buying, they're not</p> <p>14 going to -- actually, that's speculative, that's</p> <p>15 not true. The compliance -- there are situations</p> <p>16 where the compliance will transfer the client</p> <p>17 back to the sales rep if they want to talk to the</p> <p>18 sales rep or whatnot, but the compliance is</p> <p>19 instructed if the client says no, they mean no.</p> <p>20 Q. Does The Tax Club offer any financing</p> <p>21 for customers who want their products or services</p> <p>22 but don't have the money at the time?</p> <p>23 A. Yes.</p> <p>24 Q. Could you explain that?</p> <p>25 A. Sure. We have a financing program where</p>	<p style="text-align: right;">Page 131</p> <p>1 M. Savage</p> <p>2 A. Immediately.</p> <p>3 Q. Do you have your own internal</p> <p>4 collections in that case?</p> <p>5 A. Yes, but we're not aggressive with our</p> <p>6 collections at all. If someone doesn't pay, then</p> <p>7 we cancel them. We cancel them out or we</p> <p>8 don't -- you know, we'll talk to them, we'll try</p> <p>9 to get another mode of payment, obviously, but</p> <p>10 it's not -- yes, the answer to that question is</p> <p>11 yes, we have our internal collections. Our</p> <p>12 billing department does that.</p> <p>13 Q. Does The Tax Club profit in any way over</p> <p>14 and above the price of the product with the</p> <p>15 financing? Is there interest?</p> <p>16 A. Yes.</p> <p>17 Q. So can you just briefly tell me the</p> <p>18 terms, if they're the same or if they vary, why</p> <p>19 they would vary?</p> <p>20 A. They vary, and I believe them to be</p> <p>21 12 percent three years.</p> <p>22 Q. And three years to pay for the product</p> <p>23 in full?</p> <p>24 A. Yes.</p> <p>25 Q. Do they vary by, let's say, credit</p>
<p style="text-align: right;">Page 130</p> <p>1 M. Savage</p> <p>2 we have a minimum amount down. It varies by</p> <p>3 product. 10 to 20 percent, let's say, and then a</p> <p>4 monthly payment to finance the package.</p> <p>5 Q. Does The Tax Club sort of finance it, I</p> <p>6 might be using the wrong banking term, or is</p> <p>7 there an outside credit company?</p> <p>8 A. Both.</p> <p>9 Q. Can you explain how -- when you finance</p> <p>10 and when an outside company would finance?</p> <p>11 A. We use a service called Divera</p> <p>12 (phonetic). They're a loan servicing company,</p> <p>13 but we also do it internal as well.</p> <p>14 Q. Why would you use one over the other?</p> <p>15 A. We're starting to go towards internal.</p> <p>16 Because we're internally financing it, it's</p> <p>17 not -- it's only our products and, you know, just</p> <p>18 to save on fees. They charge a lot.</p> <p>19 Q. So are you floating the customer? Are</p> <p>20 they making payments?</p> <p>21 A. They're making payments.</p> <p>22 Q. Over time?</p> <p>23 A. Ahuh.</p> <p>24 Q. So at what point do they get access to</p> <p>25 the services?</p>	<p style="text-align: right;">Page 132</p> <p>1 M. Savage</p> <p>2 history or anything like that?</p> <p>3 A. No. We accept everyone.</p> <p>4 Q. Once a sale is final, that is to say</p> <p>5 it's gone through the compliance process, you may</p> <p>6 have answered this, but what happens right away?</p> <p>7 A. What happens immediately?</p> <p>8 Q. Yes.</p> <p>9 A. Well, immediately they get -- again,</p> <p>10 they get that -- they get the e-mail and the</p> <p>11 agreement. They get access to the member-only</p> <p>12 portion of the web site. They get access to an</p> <p>13 accountant. Their appointments are set for them.</p> <p>14 They get -- they get sent down the path of, you</p> <p>15 know, the description of whatever the product is</p> <p>16 that they bought.</p> <p>17 Q. We talked about appointments and I</p> <p>18 understand the appointments for the product that</p> <p>19 they purchased, that is to say appointments are</p> <p>20 set up, as you say, with an accountant right away</p> <p>21 to assess various things. Are there other types</p> <p>22 of appointments set up?</p> <p>23 A. Yes.</p> <p>24 Q. What kinds of appointments?</p> <p>25 A. Sales, admin.</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 133	Page 135
<p>1 M. Savage</p> <p>2 Q. Explain that, please?</p> <p>3 A. There will be a business sales plan</p> <p>4 appointment. Hey, do you have a business plan?</p> <p>5 Do you want a business plan?</p> <p>6 Q. Are customers told at the time that</p> <p>7 these appointments, as you call them, are set up</p> <p>8 that they are in fact solicitation calls for</p> <p>9 other products?</p> <p>10 A. I don't know.</p> <p>11 Q. Do you know who would?</p> <p>12 A. Who would be the best person? Probably</p> <p>13 Gary. He's in charge. Luke Kennedy.</p> <p>14 Q. How quickly after the initial call are</p> <p>15 these appointments, I'll call them solicitation</p> <p>16 appointments set up for?</p> <p>17 A. It varies. I would say over the course</p> <p>18 of the next couple months.</p> <p>19 Q. Couple two months or six months?</p> <p>20 A. Two months.</p> <p>21 Q. I'm going to run down a list of</p> <p>22 entities, again, from your production to us. I</p> <p>23 just want to verify that they are entities of The</p> <p>24 Tax Club and I'm trying to think of the best way</p> <p>25 to do this, if we should -- there are about a</p>	<p>1 M. Savage</p> <p>2 Q. When you say a business plan brand, it</p> <p>3 is one of your products?</p> <p>4 A. Yes.</p> <p>5 Q. Briefly describe what you do, what My</p> <p>6 Essential Plans does?</p> <p>7 A. Business plans, produce a business plan.</p> <p>8 Business plan has several different components;</p> <p>9 has a financial/marketing/operational component</p> <p>10 based on their business. Like your cups, it</p> <p>11 would be, you know, how you're going to obtain</p> <p>12 the money, I guess, to start your business, do</p> <p>13 you have a web site, how are you going to market</p> <p>14 to your web site, what are your financials. You</p> <p>15 know, a business plan. You want me to elaborate</p> <p>16 or --</p> <p>17 Q. No.</p> <p>18 A. It's a business plan by definition.</p> <p>19 Q. Is it specific or is it a generic</p> <p>20 business plan or is it specific to what I've told</p> <p>21 you my business is going to be?</p> <p>22 A. Specific.</p> <p>23 MS. PROSPER: Let's take a half an hour</p> <p>24 break and we'll be back at a quarter to 2.</p> <p>25 (A luncheon recess was taken.)</p>
Page 134	Page 136
<p>1 M. Savage</p> <p>2 dozen of them. If you give me a brief</p> <p>3 description after each one, you tell me if it's a</p> <p>4 Tax Club entity indeed, a brief description and</p> <p>5 whether or not it is a separate entity from The</p> <p>6 Tax Club or Manhattan Professional Group. Is</p> <p>7 that too many questions? So what we want to</p> <p>8 know, is this an entity that The Tax Club is</p> <p>9 affiliated with, what do they do and are they a</p> <p>10 separate company within The Tax Club or are they</p> <p>11 part of that same club?</p> <p>12 I'm going to rephrase that last</p> <p>13 question.</p> <p>14 So the three parts of the question are:</p> <p>15 Have you ever heard of this company, how is it</p> <p>16 affiliated, if at all, with the Tax Club, a brief</p> <p>17 description of what it does, and if it's not</p> <p>18 under your umbrella, tell me how -- I don't want</p> <p>19 to say incorporated, I'm not sure it is, so how</p> <p>20 it's structured.</p> <p>21 A. Okay.</p> <p>22 Q. So My Essential Plans?</p> <p>23 A. Is a brand, it's our business plan</p> <p>24 brand, Manhattan Professional Group, under</p> <p>25 Manhattan Professional Group.</p>	<p>1 M. Savage</p> <p>2 Q. So we're back on the record and I think</p> <p>3 we are going through these entities that are</p> <p>4 related in some way to the Tax Club, and you're</p> <p>5 telling me if they are or not and we are on All</p> <p>6 Access Books.</p> <p>7 A. Brand of MPG.</p> <p>8 Q. What is All Access Books?</p> <p>9 A. Bookkeeping product.</p> <p>10 Q. Vital Payroll?</p> <p>11 A. A brand of MPG, payroll services.</p> <p>12 Q. Business Document Center?</p> <p>13 A. Discontinued. At one point it was just</p> <p>14 a random library of documents. Discontinued</p> <p>15 though. We don't sell that.</p> <p>16 Q. For how long?</p> <p>17 A. It's been discontinued for over a year.</p> <p>18 Q. Success or Successful Planning?</p> <p>19 A. It's another brand of MPG.</p> <p>20 Q. What do they do?</p> <p>21 A. There's different products within that</p> <p>22 brand. There is a -- we do -- we sell -- I think</p> <p>23 we sell -- not I think, merchant account</p> <p>24 services.</p> <p>25 Q. Describe that for me, please.</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

Page 137	Page 139
<p>1 M. Savage</p> <p>2 A. Setting up clients with the ability to</p> <p>3 accept credit cards. Wills, trusts, that we</p> <p>4 outsource to --</p> <p>5 Q. That's under Successful Planning too?</p> <p>6 A. Yes. We outsource that to an attorney.</p> <p>7 What else do we do?</p> <p>8 Q. Is it Success or Successful Planning?</p> <p>9 A. It's Success Planning.</p> <p>10 Q. If you don't know, is there someone who</p> <p>11 could give me -- if you haven't -- if you don't</p> <p>12 feel like you're giving me the full circle --</p> <p>13 A. Luke Kennedy.</p> <p>14 Q. Small Biz Credit?</p> <p>15 A. Business credit.</p> <p>16 Q. That is a brand as you call it?</p> <p>17 A. Yes, it's a brand of MPG, and that is a</p> <p>18 service in which it helps clients, you know, have</p> <p>19 a business, brand of business, established</p> <p>20 credits, Dun & Bradstreet number, credit lines,</p> <p>21 credit cards in that business' name, Home Depot</p> <p>22 cards, bank accounts. It's a way of, you know,</p> <p>23 establishing credit for your business.</p> <p>24 Q. Success Merchant Processing?</p> <p>25 A. That is a brand, MPG. It's also part of</p>	<p>1 M. Savage</p> <p>2 Q. My E-Biz?</p> <p>3 A. Discontinued, and it was web site</p> <p>4 design.</p> <p>5 Q. When was it discontinued?</p> <p>6 A. I don't know. If I had to guess, a year</p> <p>7 ago.</p> <p>8 Q. Corporate Records Pro?</p> <p>9 A. That is a brand of The Tax Club, and</p> <p>10 what that is is an on-line program allowing</p> <p>11 companies to keep track of their corporate</p> <p>12 documentation, minutes, corporate filing papers,</p> <p>13 and it's a reminder system, oh, your sales tax is</p> <p>14 due or -- it's just an organization system for</p> <p>15 corporate documents.</p> <p>16 Q. You distinguish a brand of The Tax Club</p> <p>17 and you mentioned all the other ones were brands</p> <p>18 of Manhattan Professional Group.</p> <p>19 A. Ahuh.</p> <p>20 Q. What's that distinction?</p> <p>21 A. It's associated with selling</p> <p>22 incorporation services. That's why it's part of</p> <p>23 The Tax Club.</p> <p>24 Q. And the MPG brands are non-incorporation</p> <p>25 services related, would you say?</p>
Page 138	Page 140
<p>1 M. Savage</p> <p>2 Success Planning Group. Anything with "Success"</p> <p>3 is Success Planning Group. We use Success</p> <p>4 Planning Group just for internal organizational</p> <p>5 purposes, but anything with the name "Success" in</p> <p>6 it, that is the merchant processing, setting</p> <p>7 clients up with the ability to take credit cards.</p> <p>8 Q. I'm going to stop you and ask you to</p> <p>9 define when you say "brand" what you mean because</p> <p>10 you've used that term throughout?</p> <p>11 A. Something we would market, something</p> <p>12 that our clients -- I mean, we don't necessarily</p> <p>13 market Manhattan Professional Group. We'll</p> <p>14 market Success Merchant Processing as a brand.</p> <p>15 Q. When you say "brand," something that you</p> <p>16 oversee versus something that comes in from the</p> <p>17 outside, is that a good way of putting it?</p> <p>18 A. Yes.</p> <p>19 Q. Okay, that's good for me. Internet</p> <p>20 Marketing?</p> <p>21 A. That is under -- that's a brand for</p> <p>22 Manhattan Professional Group and that does web</p> <p>23 site design.</p> <p>24 Q. Were you going to say something else?</p> <p>25 A. Web site design.</p>	<p>1 M. Savage</p> <p>2 A. For the most part.</p> <p>3 Q. I don't want to put words in your mouth.</p> <p>4 A. To the best of my knowledge, yes.</p> <p>5 Q. And the last one I have is I-Congo?</p> <p>6 A. I-Congo, done, discontinued. That was</p> <p>7 logo design.</p> <p>8 Q. Discontinued as of when?</p> <p>9 A. Over a year ago.</p> <p>10 Q. And Logo Design?</p> <p>11 A. Yeah, let me clarify. It was a separate</p> <p>12 entity. Now it's a brand and all it is is logo</p> <p>13 design.</p> <p>14 Q. So it's discontinued or it's now Logo</p> <p>15 Design?</p> <p>16 A. Yes, I misspoke. Logo Design, it's</p> <p>17 always been Logo Design. It used to be a</p> <p>18 stand-alone entity.</p> <p>19 Q. So the stand-alone entity is</p> <p>20 discontinued?</p> <p>21 A. Yes, dissolved.</p> <p>22 Q. So it's now --</p> <p>23 A. It's a brand of MPG.</p> <p>24 Q. Is this list exhaustive that you know of</p> <p>25 or are there others that I didn't mention? I</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 141	Page 143
<p>1 M. Savage</p> <p>2 could say them again if you --</p> <p>3 A. We have a lot of products. They come</p> <p>4 and go depending on client demand. You know,</p> <p>5 business services, they're all related business</p> <p>6 services, so to say that that's completely</p> <p>7 comprehensive, the answer would be no, but it's</p> <p>8 definitely the vast, vast majority.</p> <p>9 Q. Is there a category of things that are</p> <p>10 not listed here?</p> <p>11 A. No.</p> <p>12 Q. Must a customer purchase one of your</p> <p>13 basic incorporation before they could purchase</p> <p>14 one of these other plans?</p> <p>15 A. No.</p> <p>16 Q. Is there a basic Tax Club membership</p> <p>17 that you need before you can tap into any of the</p> <p>18 other resources?</p> <p>19 A. No.</p> <p>20 Q. The entities that we just spoke about,</p> <p>21 the 11 including the discontinued ones, are they</p> <p>22 useful to a non-incorporated business, would you</p> <p>23 say, in your estimation that they're used for?</p> <p>24 A. They certainly could be useful, yes.</p> <p>25 Q. Are they more useful to an incorporated</p>	<p>1 M. Savage</p> <p>2 Q. How soon after the sale is the</p> <p>3 customer's payment charged, that verification</p> <p>4 piece of the sale?</p> <p>5 A. Immediately.</p> <p>6 Q. If a customer wanted to refer someone,</p> <p>7 an existing customer wanted to refer someone to</p> <p>8 Tax Club for its services, is there any type of</p> <p>9 commission to that --</p> <p>10 A. No.</p> <p>11 Q. I'm going to talk about the refund</p> <p>12 policies themselves.</p> <p>13 Can you please describe, I know you</p> <p>14 touched on it before, Tax Club's refund policy?</p> <p>15 A. Our refund policy is three days from the</p> <p>16 point of the sale that they get all their money</p> <p>17 back. Very easy process, e-mail or call into</p> <p>18 billing, 100 percent money back up to --</p> <p>19 Q. Three business days?</p> <p>20 A. -- three business days.</p> <p>21 Q. If I bought on Friday, it's now Monday,</p> <p>22 it would be a few days later?</p> <p>23 A. Yes.</p> <p>24 Q. Just business days or not business days</p> <p>25 is the question?</p>
Page 142	Page 144
<p>1 M. Savage</p> <p>2 business?</p> <p>3 A. Most of them could be used either with a</p> <p>4 corporation or with a sole proprietorship.</p> <p>5 Q. Something like Corporate Records Pro --</p> <p>6 A. That's the one I was thinking of.</p> <p>7 Q. Board meetings and such?</p> <p>8 A. There would be no reason to have that if</p> <p>9 you're a sole proprietor.</p> <p>10 Q. What about Vital Payroll?</p> <p>11 A. Again, you wouldn't be able to have a</p> <p>12 payroll if you didn't have a corporation.</p> <p>13 Q. At what point, if at all, during the</p> <p>14 initial sales call is The Tax Club's refund</p> <p>15 policy explained to a new or potential customer?</p> <p>16 A. We explain the refund policy in</p> <p>17 compliance, in verification.</p> <p>18 Q. So that's the second portion of the</p> <p>19 call?</p> <p>20 A. It's the same phone call, but yeah, I</p> <p>21 won't elaborate and probably shouldn't, but the</p> <p>22 reason we don't have the sales rep say it because</p> <p>23 then they would say get this, don't worry, we'll</p> <p>24 refund it tomorrow. It would be a sales tactic.</p> <p>25 It would be a mess, is what it would be.</p>	<p>1 M. Savage</p> <p>2 A. No, I would say no because we're open on</p> <p>3 Saturday.</p> <p>4 MR. MITCHELL: Do you want to confer</p> <p>5 with counsel?</p> <p>6 MR. SANSCRAINTE: Off the record.</p> <p>7 (A discussion was held off the record.)</p> <p>8 MS. PROSPER: So back on the record.</p> <p>9 Just let the record reflect that Mr. Savage</p> <p>10 conferred with Mr. Sanscrainte, his attorney,</p> <p>11 and clarified that it was business days in</p> <p>12 regards to three, the three days.</p> <p>13 THE WITNESS: Yes.</p> <p>14 Q. For a full refund?</p> <p>15 A. Yes. Our attorney wrote it. Joe wrote</p> <p>16 it.</p> <p>17 Q. And then do you give partial refunds?</p> <p>18 A. Oh, yes.</p> <p>19 Q. Until what point?</p> <p>20 A. 15 days regardless of fulfillment we</p> <p>21 will give up to 85 percent back, meaning we've</p> <p>22 retaken 15 percent, and we generally have a</p> <p>23 minimum to no complaints about that. That</p> <p>24 15 percent represents, obviously, having to staff</p> <p>25 accountants in the event that a client would --</p>

<p style="text-align: right;">Page 145</p> <p>1 M. Savage</p> <p>2 would, you know, take our -- take up -- you know,</p> <p>3 take the services by asking accountants</p> <p>4 questions, also merchant fees, you know,</p> <p>5 Visa/MasterCard, they'll charge both ways,</p> <p>6 charging and refunding. I think you could look</p> <p>7 at it as a restocking fees. I'll say most</p> <p>8 clients don't have a problem with that, and that</p> <p>9 if they do, we'll always make exceptions. In</p> <p>10 fact, we very oftentimes will make exceptions</p> <p>11 beyond the 15-day period as well.</p> <p>12 Q. Who makes decisions on those exceptions?</p> <p>13 A. Our billing manager.</p> <p>14 Q. Who is that?</p> <p>15 A. Lindsey Kush.</p> <p>16 Q. Is it within her full discretion whether</p> <p>17 or not she goes outside of the policy?</p> <p>18 A. Ahuh.</p> <p>19 Q. What, if any, specific steps must be</p> <p>20 undertaken by the customer to ensure they get a</p> <p>21 refund?</p> <p>22 A. We send them a refund authorization form</p> <p>23 that they sign saying that they got the refund so</p> <p>24 they can't get a refund and then also charge it</p> <p>25 back and then we don't have any proof with the</p>	<p style="text-align: right;">Page 147</p> <p>1 M. Savage</p> <p>2 oftentimes clients will call wanting to cancel,</p> <p>3 thinking about cancelling. They go to our</p> <p>4 customer service department. Within our customer</p> <p>5 service department we have a saves department</p> <p>6 which is two or three people and they attempt to</p> <p>7 what we call save the client, meaning keeping</p> <p>8 their membership active. If they agree to it, we</p> <p>9 have a separate compliance/verification process,</p> <p>10 so someone calls and wants to cancel, they get</p> <p>11 sent to the saves department, saves department</p> <p>12 says oh, no, they're fine, they want to stay on</p> <p>13 board, they get sent to our verification process</p> <p>14 which is, you know, a different script. It says</p> <p>15 you're agreeing to stay on board, you're agreeing</p> <p>16 that we're going to charge your credit card X</p> <p>17 amount, this is who you are, this is your billing</p> <p>18 address, your credit card number, so it's almost</p> <p>19 as if it's a brand new sale.</p> <p>20 Q. From the time that a customer calls to</p> <p>21 cancel, what's the time frame before they get a</p> <p>22 save call?</p> <p>23 A. Immediately. If they don't -- in fact,</p> <p>24 our policy is if the saves call -- if they call</p> <p>25 and cancel and the saves, quote/unquote, don't</p>
<p style="text-align: right;">Page 146</p> <p>1 M. Savage</p> <p>2 credit card companies, and it's important to note</p> <p>3 that when they request the refund, that's -- it's</p> <p>4 not when they actually send us back the signed</p> <p>5 form or fax it back, it's when they request it is</p> <p>6 when we determine it's three days or 15 days.</p> <p>7 Q. So on the day of the request you count</p> <p>8 back --</p> <p>9 A. Yes.</p> <p>10 Q. -- how many days?</p> <p>11 A. Yes. Not the day that we actually</p> <p>12 receive the request. That could happen 30 days</p> <p>13 later.</p> <p>14 Q. How long does it take for a customer's</p> <p>15 credit card to be credited after the request</p> <p>16 date?</p> <p>17 A. What we tell them is typically seven to</p> <p>18 10 business days. We try and do it immediately,</p> <p>19 but we say seven to 10 business days.</p> <p>20 Q. Are you familiar with something called a</p> <p>21 "save call"?</p> <p>22 A. Yes.</p> <p>23 Q. Could you explain what a save call is?</p> <p>24 A. We have a saves department. It's within</p> <p>25 our customer service department and they --</p>	<p style="text-align: right;">Page 148</p> <p>1 M. Savage</p> <p>2 save the client, within 48 hours they immediately</p> <p>3 start going through our refund process.</p> <p>4 Q. So would you say you wait for the save</p> <p>5 call before you start the refund process?</p> <p>6 A. No. The refund process starts</p> <p>7 immediately, but I would say that we wouldn't</p> <p>8 actually refund the client money until either the</p> <p>9 saves -- someone in the saves department had a</p> <p>10 chance, customer service department had a chance</p> <p>11 to talk to them or it was 24 to 48 hours, unless</p> <p>12 they fall within the three days, obviously that's</p> <p>13 immediate.</p> <p>14 Q. So what you just described is for day</p> <p>15 four through 15?</p> <p>16 A. Four through forever.</p> <p>17 Q. Do you also try to save folks who have</p> <p>18 paid for their -- paid in full for their initial</p> <p>19 package but just want to cut off the monthly fee?</p> <p>20 A. No.</p> <p>21 Q. So would you say that the save calls are</p> <p>22 only for folks who want a full refund, a full or</p> <p>23 85 percent refund?</p> <p>24 A. Full or partial refund, yes.</p> <p>25 Q. How many save calls are attempted?</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

<p style="text-align: right;">Page 149</p> <p>1 M. Savage</p> <p>2 A. I don't know.</p> <p>3 Q. Do you know who would?</p> <p>4 A. Preston Clark.</p> <p>5 Q. What, if anything, happened to the</p> <p>6 salesperson who made a sale that is later</p> <p>7 refunded?</p> <p>8 A. They do not get commission on it.</p> <p>9 Q. Is there a reward for The Tax Club</p> <p>10 employee who saves a call?</p> <p>11 A. There is a small commission. It's not</p> <p>12 the same commission as if it's an original sale</p> <p>13 but there is incentive.</p> <p>14 Q. Does the original salesperson get their</p> <p>15 commission for a saved call?</p> <p>16 A. They split it with the saves</p> <p>17 representative.</p> <p>18 Q. Can you estimate the total number of</p> <p>19 customers serviced by The Tax Club in an average</p> <p>20 year?</p> <p>21 A. In an average year?</p> <p>22 Q. Yes, let's say over the last three to</p> <p>23 five years.</p> <p>24 A. Over the last three to five years,</p> <p>25 unique customers, I would say over 100,000.</p>	<p style="text-align: right;">Page 151</p> <p>1 M. Savage</p> <p>2 part ways.</p> <p>3 Q. And actually get the refund?</p> <p>4 A. Yes.</p> <p>5 Q. And does that encompass the three day</p> <p>6 through the 15th day refund?</p> <p>7 A. Yes.</p> <p>8 Q. If you know, what percentage of</p> <p>9 customers who request refunds actually get them?</p> <p>10 You might not know the answer to the first</p> <p>11 question.</p> <p>12 A. Who request them? I don't know the</p> <p>13 answer to that.</p> <p>14 Q. Do you know who might?</p> <p>15 A. Lindsey Kush.</p> <p>16 Q. Has The Tax Club or any related entity</p> <p>17 been the subject of an investigation or</p> <p>18 enforcement action by a law enforcement agency?</p> <p>19 A. We had an IRS investigation that I spoke</p> <p>20 of earlier. You want me to reiterate?</p> <p>21 Q. No, thanks. We have that on the record.</p> <p>22 A. That was it.</p> <p>23 Q. Has any other Attorney General's office</p> <p>24 brought an action or investigation against The</p> <p>25 Tax Club?</p>
<p style="text-align: right;">Page 150</p> <p>1 M. Savage</p> <p>2 Q. I'm glad you mentioned the word "unique"</p> <p>3 versus products sold. Can you estimate total</p> <p>4 profits, gross or net, for the last three to five</p> <p>5 years?</p> <p>6 A. Estimate?</p> <p>7 Q. Yes.</p> <p>8 A. I could tell you last year our profit,</p> <p>9 our books aren't closed yet so it's not official,</p> <p>10 but our profit is anywhere from 3 to \$5 million</p> <p>11 in 2010.</p> <p>12 Q. Is that net or gross?</p> <p>13 A. That's net.</p> <p>14 Q. Net after everything?</p> <p>15 A. Yes.</p> <p>16 Q. If you know, what percentage of your</p> <p>17 customers eventually request a refund?</p> <p>18 A. I do not know the cancellation request,</p> <p>19 but I do know what our cancellation rate is.</p> <p>20 Q. What's the cancellation rate?</p> <p>21 A. 15 to 20 percent.</p> <p>22 Q. And when you say your cancellation rate,</p> <p>23 what does that mean, what number is that?</p> <p>24 A. People who call in and say -- people who</p> <p>25 call in and want a refund and, you know, want to</p>	<p style="text-align: right;">Page 152</p> <p>1 M. Savage</p> <p>2 A. No.</p> <p>3 Q. You're talking about Utah and New York?</p> <p>4 A. Ahuh, and we do business in all 50</p> <p>5 states.</p> <p>6 Q. Does The Tax Club engage in advertising?</p> <p>7 A. We have in the past, yes.</p> <p>8 Q. What kind of advertising did you engage</p> <p>9 in?</p> <p>10 A. We've had radio commercials, one, and</p> <p>11 we've done some Internet advertising but nothing</p> <p>12 material. Our advertising budget is nil, so it's</p> <p>13 not material at all.</p> <p>14 Q. When you say "radio," what radio waves?</p> <p>15 A. It was a Spanish radio station about</p> <p>16 eight years ago, six years ago. This was when we</p> <p>17 were trying to start Tax Club Latino. We were</p> <p>18 helping undocumented workers file for -- you</p> <p>19 know, pay taxes. It wasn't very successful.</p> <p>20 Q. You mentioned some web advertising.</p> <p>21 A. Yes. I believe there's been a banner</p> <p>22 somewhere. I shouldn't speculate. I don't know.</p> <p>23 Q. Do you know who would know?</p> <p>24 A. Lindsey Kush.</p> <p>25 Q. Do you have a specific audience to</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

<p style="text-align: right;">Page 153</p> <p>1 M. Savage</p> <p>2 which -- to whom you advertise?</p> <p>3 A. If we advertised, do we have a</p> <p>4 demographic?</p> <p>5 Q. Are you looking for a certain person?</p> <p>6 A. Yes, entrepreneurs and small business</p> <p>7 owners.</p> <p>8 Q. Is there a web site maintained for The</p> <p>9 Tax Club?</p> <p>10 A. Yes, thetaxclub.com.</p> <p>11 Q. What does it contain?</p> <p>12 A. It contains our general information</p> <p>13 about what we do, who we are, also has a</p> <p>14 members-only section, also gives access to our</p> <p>15 Virtual Tax Organizer which is a database of our</p> <p>16 clients' information that we use to prepare their</p> <p>17 taxes.</p> <p>18 Q. What's on the members-only part?</p> <p>19 A. There's articles specific to small</p> <p>20 businesses, there's information -- helpful</p> <p>21 information regarding being successful as a small</p> <p>22 business owner.</p> <p>23 Q. When you say your members, that is</p> <p>24 someone who pays a monthly fee of some kind?</p> <p>25 A. Yes.</p>	<p style="text-align: right;">Page 155</p> <p>1 M. Savage</p> <p>2 Q. All of them?</p> <p>3 A. Yes. We might have one or two in Wells</p> <p>4 Fargo, but 95 percent, if not more, Bank of</p> <p>5 America.</p> <p>6 Q. What kinds of accounts do you have?</p> <p>7 A. Business accounts, checking, savings</p> <p>8 accounts.</p> <p>9 Q. Do you have like operating versus, I</p> <p>10 don't know, something else or payroll and</p> <p>11 different --</p> <p>12 A. Yes, we have a payroll account,</p> <p>13 operating account, and then various savings</p> <p>14 accounts, checking accounts, but all of which are</p> <p>15 from the operations.</p> <p>16 RQ Q. Can you provide us with the accounts,</p> <p>17 the routing numbers and the current balances</p> <p>18 associated with your business accounts? I'm sure</p> <p>19 you don't have that with you right now.</p> <p>20 A. Yes. I don't have it memorized, no.</p> <p>21 Q. Where do you bank personally?</p> <p>22 A. Bank of America.</p> <p>23 Q. Do you have any personal bank accounts</p> <p>24 in any other states, other than New York?</p> <p>25 A. Washington.</p>
<p style="text-align: right;">Page 154</p> <p>1 M. Savage</p> <p>2 Q. Are there products that don't require a</p> <p>3 monthly fee?</p> <p>4 A. Yes.</p> <p>5 Q. Can you tell me the category of ones,</p> <p>6 you know, which ones do or some of them?</p> <p>7 A. Business Plans do not, yeah.</p> <p>8 Q. Who maintains your web site?</p> <p>9 A. We do internally.</p> <p>10 Q. Do you have a team of web site people?</p> <p>11 A. Ahuh.</p> <p>12 Q. Who are they or who do they work under?</p> <p>13 A. They work under -- it falls underneath</p> <p>14 Gary Milkwick.</p> <p>15 Q. He's -- I'm sorry?</p> <p>16 A. Director of Operations.</p> <p>17 Q. In general, who created the content for</p> <p>18 the web site?</p> <p>19 A. We did internally.</p> <p>20 Q. Does The Tax Club and its affiliates</p> <p>21 maintain business bank accounts in association</p> <p>22 with its day-to-day operations?</p> <p>23 A. Yes.</p> <p>24 Q. Can you tell me what banks those are?</p> <p>25 A. Bank of America.</p>	<p style="text-align: right;">Page 156</p> <p>1 M. Savage</p> <p>2 Q. State?</p> <p>3 A. Ahuh.</p> <p>4 Q. What about other countries?</p> <p>5 A. No. No. I'm sorry, I don't. I do not.</p> <p>6 Q. You don't?</p> <p>7 A. No.</p> <p>8 Q. What about other countries?</p> <p>9 A. No.</p> <p>10 Q. Have any other Tax Club related entities</p> <p>11 ever received funding in any way from the</p> <p>12 government?</p> <p>13 A. No.</p> <p>14 Q. Have any Tax Club related entities</p> <p>15 received any other types of grant or funding from</p> <p>16 private or any other sources?</p> <p>17 A. No.</p> <p>18 Q. Does The Tax Club owe any debt?</p> <p>19 A. No.</p> <p>20 Q. What are, you know, I guess big picture,</p> <p>21 unless you know specifically, what are the Tax</p> <p>22 Club's assets?</p> <p>23 A. We don't have -- our balance sheet is</p> <p>24 not asset heavy. We don't have cash on hand. We</p> <p>25 don't own property. Our assets would be our</p>

Michael Savage
March 2, 2011

In the Matter of
The Tax Club

Page 157	Page 159
<p>1 M. Savage 2 employees, intellectual property. 3 Q. Who controls these assets? Who 4 controls, as you call it, the intellectual 5 property or whatever funds there are? Who is in 6 charge of that? 7 A. Lindsey Kush. 8 Q. Has The Tax Club ever filed for 9 bankruptcy? 10 A. No. 11 Q. Have you ever personally filed for 12 bankruptcy? 13 A. No. 14 Q. Do you plan to? 15 A. No. 16 Q. Are there any pending judgments against 17 you personally? 18 A. No. 19 Q. Are there any pending judgments against 20 any Tax Club related entities? 21 A. No. 22 MS. PROSPER: So we just want to review 23 based on the answers you gave what documents 24 were sort of promised or information that 25 were not already produced on the hard drive</p>	<p>1 M. Savage 2 interrupt? 3 MS. PROSPER: Please. 4 MR. SANSCRAINTE: Is there anybody that 5 owns intellectual rights, other than 6 Mr. Johnson? 7 THE WITNESS: No. 8 MR. SANSCRAINTE: So I'm just thinking 9 there may -- Mr. Johnson owns -- 10 MS. PROSPER: What is it that he owns? 11 MR. SANSCRAINTE: Okay, got you. 12 MR. MITCHELL: Regarding if a customer 13 wanted to refer someone to The Tax Club for 14 services, are they paid any type of 15 commission? Lindsey Kush would talk about 16 any question we have regarding the point of 17 sales and point of refunds. She could answer 18 those? 19 THE WITNESS: Yes. 20 MR. MITCHELL: Preston Clark would deal 21 with any question we have regarding save 22 calls? 23 THE WITNESS: Ahuh. 24 MR. MITCHELL: Luke Kennedy can tell us 25 about the business plan sales appointments;</p>
Page 158	Page 160
<p>1 M. Savage 2 as well as -- just so we know what we're 3 waiting for and then we could set some sort 4 of time frame. We have the various names of 5 folks who could provide information you 6 didn't off the top of your head. I know that 7 there were -- 8 MR. MITCHELL: I'm going to offer you a 9 couple names; Lindsey Kush regarding the 10 advertisement, we have radio Internet and 11 others. Lindsey Kush with respect to the 12 intellectual property ownership rights or The 13 Task Club assets. 14 MS. PROSPER: Could I ask a follow-up 15 question on the intellectual property? 16 Q. Do you have trademarks and -- you have 17 certain things trademarked? 18 A. Yes. 19 Q. So that's part of the answer that 20 Lindsey Kush would give us? 21 A. Yes. 22 MS. PROSPER: Okay, thank you. 23 MR. MITCHELL: Building management, 24 Lindsey Kush. 25 MR. SANSCRAINTE: Permission to</p>	<p>1 M. Savage 2 is that right? 3 MS. PROSPER: Are we talking about the 4 appointments that come after the initial? 5 MR. MITCHELL: Right. 6 MS. PROSPER: Web site content, did we 7 have a question on that? 8 MR. MITCHELL: He already said Lindsey 9 Kush. 10 MS. PROSPER: Lindsey Kush, sorry. 11 MR. SANSCRAINTE: Off the record. 12 (A discussion was held off the record.) 13 MR. MITCHELL: Brendan Pack, he's a 14 Sales Manager? 15 THE WITNESS: Yes. 16 MR. MITCHELL: He would answer questions 17 about training? 18 MS. PROSPER: Training, right, Brendan 19 Pack. 20 THE WITNESS: Ahuh. 21 MS. PROSPER: I mean, I think there was 22 a series of specific questions and we could 23 talk about how we get the answers to any 24 specific questions, if we want to do an 25 interrogatory or something like that to</p>

In the Matter of
The Tax Club

Michael Savage
March 2, 2011

Page 161	Page 163
<p>1 M. Savage</p> <p>2 follow up or especially as to him because I</p> <p>3 think we would have some follow-up questions</p> <p>4 on sales training.</p> <p>5 MR. SANS CRAINTE: Sure, absolutely.</p> <p>6 MS. PROSPER: Do you have others?</p> <p>7 MR. SANS CRAINTE: I have a couple of</p> <p>8 other things, updated org chart.</p> <p>9 THE WITNESS: Sales scripts.</p> <p>10 MS. PROSPER: Sales scripts, yeah, or</p> <p>11 sales training materials. I think I saw a</p> <p>12 few things on there but I didn't -- wasn't</p> <p>13 enough to satisfy.</p> <p>14 MR. MITCHELL: Ted Johnson, he was head</p> <p>15 of Utah; is that right?</p> <p>16 MS. PROSPER: He's head of the whole --</p> <p>17 THE WITNESS: He's the owner but he's --</p> <p>18 he lives in California.</p> <p>19 MR. SANS CRAINTE: We need background on</p> <p>20 Maria Petrova.</p> <p>21 MS. PROSPER: What does she do again?</p> <p>22 THE WITNESS: Corporations, Corporate</p> <p>23 Department.</p> <p>24 MS. PROSPER: Right, the Corporate</p> <p>25 Department. She's actually somebody who --</p>	<p>1 M. Savage</p> <p>2 guess it would be --</p> <p>3 THE WITNESS: Qualifications.</p> <p>4 MS. PROSPER: Qualifications, yeah, but</p> <p>5 I guess it would be more of a job posting.</p> <p>6 If I wanted to know how could I get that job,</p> <p>7 what would I refer to to know what the</p> <p>8 qualifications were and/or the degree</p> <p>9 requirements, if any.</p> <p>10 MR. MITCHELL: Just to follow-up on</p> <p>11 Jason Baum, you know, he does sales training</p> <p>12 and if a customer sought legal advice, what</p> <p>13 is told to a salesperson, we could get that</p> <p>14 from Jason Baum?</p> <p>15 THE WITNESS: Yes, he would be all over</p> <p>16 that.</p> <p>17 MS. PROSPER: He does the sales</p> <p>18 training, Jason Baum?</p> <p>19 THE WITNESS: Yes.</p> <p>20 MS. PROSPER: You mentioned another</p> <p>21 name, Brendan Pack will sort of be able to</p> <p>22 complete that narrative of the complaining?</p> <p>23 THE WITNESS: Yes, and Preston Clark.</p> <p>24 MS. PROSPER: Do you have anything else?</p> <p>25 MR. MITCHELL: No.</p>
Page 162	Page 164
<p>1 M. Savage</p> <p>2 MR. SANS CRAINTE: That's all I got.</p> <p>3 MS. PROSPER: Do you happen to have job</p> <p>4 descriptions for anyone like an official --</p> <p>5 THE WITNESS: I could get them.</p> <p>6 MS. PROSPER: Do they exist? I mean,</p> <p>7 don't make them up. I mean, if they already</p> <p>8 exist.</p> <p>9 THE WITNESS: We have titles.</p> <p>10 Descriptions and duties? Not that I know of.</p> <p>11 MR. SANS CRAINTE: Could I interrupt? I</p> <p>12 think we do. I've seen some things in human</p> <p>13 resources.</p> <p>14 THE WITNESS: But they're more -- I</p> <p>15 don't know. They're just like titles and</p> <p>16 what --</p> <p>17 MR. SANS CRAINTE: I shouldn't interrupt,</p> <p>18 sorry.</p> <p>19 THE WITNESS: I'll look. I'll send it</p> <p>20 over, if we do.</p> <p>21 MS. PROSPER: Okay, and any degree</p> <p>22 requirements for any of the positions</p> <p>23 specifically. You know, I know we went</p> <p>24 through a lot of this, especially with the</p> <p>25 accountants and all that, so if you have -- I</p>	<p>1 M. Savage</p> <p>2 MS. PROSPER: I think we're done,</p> <p>3 gentlemen.</p> <p>4 This concludes the subpoena hearing of</p> <p>5 Mr. Michael Savage, President of The Tax</p> <p>6 Club, and thank you for your time gentlemen.</p> <p>7 The time now is 2:15.</p> <p>8 (TIME NOTED: 2:15 P.M.)</p> <p>9</p> <p>10 MICHAEL SAVAGE</p> <p>11</p> <p>12</p> <p>13 Subscribed and sworn to</p> <p>14 before me this day</p> <p>15 of , 2011.</p> <p>16</p> <p>17</p> <p>18 NOTARY PUBLIC</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>